



QATAR CENTRAL BANK
Department of Economic Policies

The Twenty Ninth Annual Report

2005

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*In the name of God
The Most Merciful,
The Most Compassionate*



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AMIR OF THE STATE OF QATAR



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Foreword

Qatar Central Bank (QCB) is pleased to publish its Twenty Ninth Annual Report. In general, this issue of QCB Annual Report presents major facts and figures that cover the most important economic developments, focusing, in particular, on banking system developments during 2005.

The growth of the Qatari economy, expressed by the annual nominal rate of growth in GDP, continued its vigor in 2005, albeit at slower pace than that of 2004, reaching 33.8% in 2005 vis-à-vis 34.8% in 2004.

The Oil and Gas sector, as well as the non-oil-non-gas (NONG) sectors, have all contributed to the growth realized in 2005. However, the oil and gas sector grew by 46.3%, while the NONG sectors grew by 18.8% only, both in nominal terms. This nominal growth was associated with both internal and external balance surpluses. On one hand, the Government Budget realized a surplus for the sixth consecutive year, reaching 9.2% of GDP in 2005 vis-à-vis 16.4% in 2004. On the other hand, the Current Account continued its surplus position for the seventh consecutive year, rising in 2005 to 25.2% of GDP, vis-à-vis 23.8% in 2004.

In light of QCB commitment to fixed parity of the Qatari Riyal (QR) against the US dollar and the resultant link between QR-interest rates and USD-interest rates; the continuous expansion of government expenditures on developmental and infrastructural projects, the slowdown of private capital outflows and the inflows of repatriating some capital to invest either in financing domestic projects or to speculate in the securities and other assets markets; it was a natural outcome for the growth in domestic liquidity (M2) to accelerate from 20% in 2004 to 43% in 2005, exceeding by far the nominal growth rates in GDP and non-oil-non-gas GDP, which were 33.8% and 18.8%, respectively. Logically, this acceleration led to higher domestic inflationary pressures, and pushed the core inflation rate (excludes the rent component from CPI) up to 4.39% by the end of 2005.

At the monetary policy level, QCB continued to realize its major goals of maintaining the stability of the QR peg and sustaining the monetary and financial stability. Furthermore, QCB continued to manage interest rates in such a way that supports monetary and financial stability via absorbing excess liquidity and fighting inflationary pressures and serves the needs of sustainable economic development. The coverage ratio of QCB net foreign assets to currency issued at the end of 2005 reached 471.3% vis-à-vis 391.7% end-2004.

Within QCB role of supervision and oversight of the banking sector, QCB has continued in 2005 to emphasize banks' compliance with its prudential instructions and adherence to the sound banking and financial practices along the lines of the latest developments in the international standards, especially the Basel II accord on capital adequacy, effective January 2006.

The current economic boom has reflected favorably on the activities of the banking sector. Commercial banks continued to realize steady and firm growth in providing their banking services, and introduced new banking products to meet the needs of their clients, which reflected positively on their 2005 financial indicators, such as growing total assets by 41.6% by the end of 2005 vis-à-vis 20.9% end-2004. Whereas the main activities of commercial banks, i.e., accepting deposits and extending credit; grew by 40.5% end-2005 vis-à-vis 14.8% end-2004; and by 40.9% end-2005 vis-à-vis 13% end-2004, respectively. A quick glance on the indicators of banking sector performance in 2005 reveals that the profitability (net returns on shareholders' equity) of the banking sector have exceeded the 2004 level, reaching 28.5% end-2005 vis-à-vis 20.9% end-2004. Banks have continued to maintain high ratios of capital adequacy, reaching 24.8% end-2005, well above the minimum ratio of 10% required by QCB.

QCB is honored to pay great thanks with highest respect to His Highness the Amir Sheikh Hamad Bin Khalifa Al Thani, His Highness the Heir Apparent and His Highness the Prime Minister for the continuous support extended to QCB. The QCB also expresses its gratitude and appreciation to all Government agencies, banks and financial institutions operating in Qatar and acknowledges their valuable contribution towards the issuance of this report.



Governor

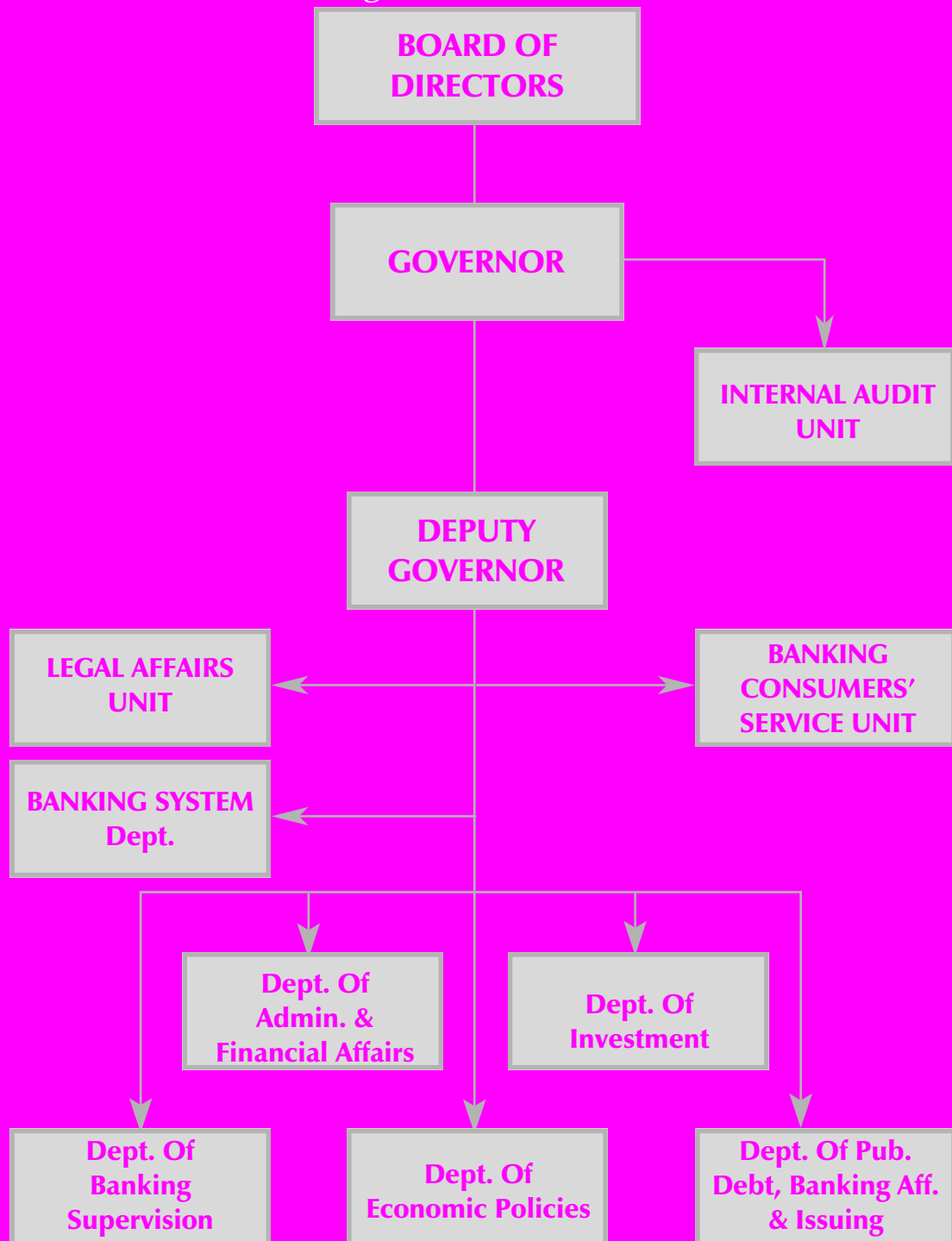
Abdulla Bin Saud Al Thani

QATAR CENTRAL BANK

The Bank Organization Chart

QATAR CENTRAL BANK

Organization Chart



The Twenty Ninth Annual Report

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Section I

The Real Economy

Chapter One

Gross Domestic Product



Chapter Two

Prices and the Labor Force



Chapter Three

Public Finance



The Gross Domestic Product of the State of Qatar recorded a new high in 2005. Several developments, both domestic and international, have contributed to its high growth during the year.

Geopolitical tensions in the Middle East Region -especially in the Gulf region- such as the ongoing war in Iraq, and the tensions arising from the standoff on Iran's nuclear issue; and natural disasters; all led the international oil markets to a 40% price hike.

The above developments reflected positively on Qatar GDP growth results in 2005; especially the hydrocarbon sector.

At the domestic level, several factors interacted. especially are those coming from the government's fiscal side and the banking industry. The banking industry experienced an unprecedented expansion in the various forms of financial intermediation. The public expenditure increased by 32% in 2005, while the domestic liquidity increased by 43%. Banking credit extended to the domestic private sector during 2005 grew by 63%.

All in all, the accumulated effects exerted by these developments have in fact been responsible for what the Qatari GDP has reached in 2005. The unprecedented growth rate of GDP in current prices, which exceeded 33% for 2005 and the phenomenal growth of 13.1% in real terms (in the non-oil-non-gas GDP sectors), which came out higher than the 8.6% achieved in Asia and the 5.9% achieved in the Middle Eastern countries in 2005, were not possible to be achieved without these developments.

In the following subheadings, a more detailed discussion of what these developments in the Qatari GDP have been in 2005.

BOX (1)**World Economic Growth**

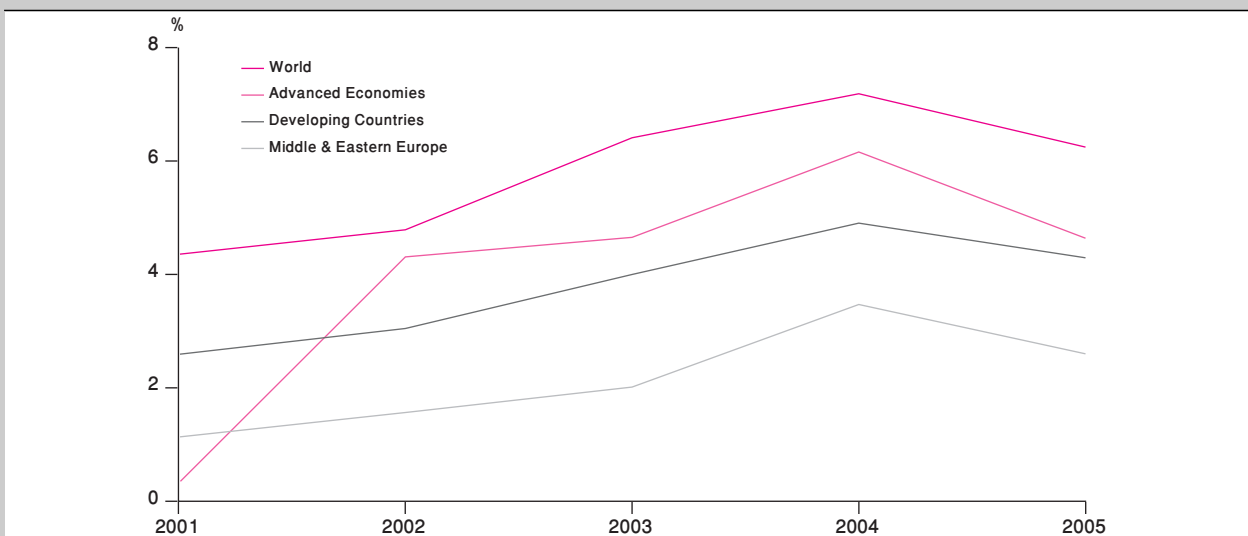
World real economic rate of growth decreased to 4.8% in 2005 compared with 5.3% in 2004, but was still a bit higher than the 4.1% rate of growth in 2003. The US economy grew by 3.5% in 2005 compared with 4.2% in 2004, Japan's economy has expanded by 2.7% compared with 2.3% in 2004, while the Euro Zone rate of economic growth has decreased to 1.3% in 2005 compared with 2.1% a year earlier.

The developing economies as a whole realized an average rate of growth of 7.2% compared with 7.6% in 2004. The economic rate of growth in the regional groups of Asia, Africa, South America, have decelerated, while increased in the Middle East as shown in the table below:

World Real GDP Growth Rates (2001-2005)

(%)

Item	2001	2002	2003	2004	2005
World	2.6	3.1	4.1	5.3	4.8
Advanced Economies	1.2	1.6	2.0	3.3	2.7
USA	0.8	1.6	2.7	4.2	3.5
Japan	0.4	-0.1	1.8	2.3	2.7
Euro Zone	1.9	0.9	0.7	2.1	1.3
Developing Countries	4.4	5.1	6.7	7.6	7.2
Africa	4.2	3.6	4.6	5.5	5.2
Asia	6.1	7.0	8.4	8.8	8.6
The Middle East	3.2	4.3	6.6	5.4	5.9
Half Western World	0.5	-	2.2	5.6	4.3
Middle & East Europe	0.3	4.4	4.7	6.5	5.3



Source: IMF, World Economic Outlook, April 2004.

Gross Domestic Product (GDP):

Nominal GDP for the state of Qatar has maintained a fast pace of growth for the past few years. However, this pace in 2005 seems a little slower than 2004. GDP rose from QR 115.51 billion in 2004 to QR 154.56 billion, in 2005, that is a growth of 33.8% compared with 34.8% in 2004.

Table No (1-1)

Developments in Gross Domestic Product Bi-Sectoral Classification

Items	Million QR			
	GDP in Current Prices		GDP in Constant Prices of 2001	
	2004	2005	2004	2005
Oil and Gas Sector	62,922	92,071	47,765	48,032
Relative Share %	54.5	59.6	55.8	52.9
Rate of Growth %	24.5	46.3	18.0	0.6
Non-oil-non-gas Sectors	52,590	62,493	37,759	42,694
Relative Share %	45.5	40.4	44.2	47.1
Rate of Growth %	49.8	18.8	24.6	13.1
TOTAL	115,512	154,564	85,524	90,726
(Y-o-Y) Rate of Growth %	34.8	33.8	20.8	6.1

Table No (1-1) indicates that real GDP in Qatar has grown in 2005 at the rate of 6.1% vis-à-vis 20.8% in the previous year. This is due to Qatar's honoring its commitment to the OPEC decision not to raise production during 2005 and adhering to this share during 2005. Thus, Qatar's oil and gas production did not increase in 2005.

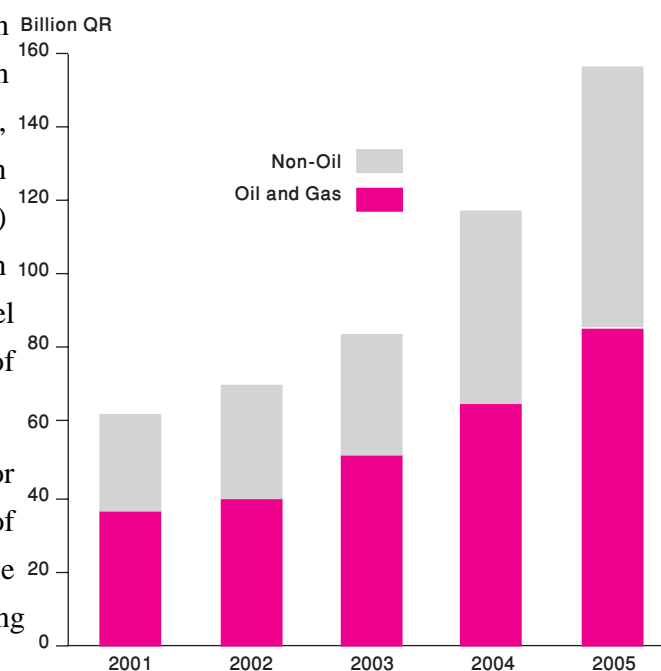
The Oil and Gas Sector:

The oil and gas sector grew faster in 2005 than it did in 2004 and 2003. The growth rate realized in 2005 came to almost twice that achieved in 2004, which was almost equal to growth rate achieved in 2003. Oil and gas sector output (in current prices) reached QR 92.1 billion in 2005. That is an increase of QR 29.1 billion, or 46.3%, from its level in 2004. Most of this increase was the result of rising price of oil on the international markets.

These developments in the oil and gas sector during 2005 led to increasing its relative share of overall GDP in current prices by 5.1 percentage points, to become approximately 60%, representing the highest record during the last five years.

Figure (1-1)

Gross Domestic Product



On the other hand, the increase of oil and gas output (in real terms) came very close to a mere QR 267 million, or 0.6%, that is a clear indicator of the real rate of growth in this sector. This clearly reveals the fact that the real rate of growth in the volume or quantities of production in this sector did not exceed 1%, and that the remaining nominal increase, which surpassed 46%, is attributed to the price increases that took place in 2005.

These developments led to the decreasing relative importance of this sector's real output to GDP (in real terms) by 3 percentage points, i.e., from 55.8% in 2004 to 52.9% in 2005.

Non-Oil and Non-Gas (NONG) Sectors:

The growth of these sectors experienced relative slowing down in 2005, achieving a rise of QR 9.9 billion, or 18.8%, vis-à-vis a rise by 49.8% in 2004, reaching QR 62.5 billion by the end-2005, vis-à-vis QR 52.6 billion by end-2004. Thus, its contribution to the growth of nominal GDP shrank to 25.4% in 2005, vis-à-vis 58.6% in 2004. All NONG sectors contributed positively to the increase in nominal GDP, except for the service sector which experienced a decline in its output during 2005.

Table No (1-2)

Relative Contributions to GDP Growth

Realized Increase in:	Million QR			
	2004		2005	
	Nominal	Real	Nominal	Real
Oil and Gas Sector	12,371	7,297	29,149	267
Relative Share in Total Growth of GDP%	41.45	49.49	74.64	5.13
NONG Sectors	17,478	7,446	9,903	4,935
Relative Share in Total Growth of GDP%	58.55	50.51	25.36	94.87
Overall Increase in GDP	29,849	14,743	39,052	5,202

On the other hand, the real rate of growth in the output of NONG sectors grew by 13.1% in 2005 vis-à-vis 24.6% in 2004. However, its relative share in the overall growth of real GDP has leaped to account for 94.9% during 2005 vis-à-vis 50.5% in 2004. The real sector of the economy was characterized by the fact that all of its sub-sectors have achieved positive rates of growth in 2005, except for the Agriculture and Fishing which maintained their previous levels of output unchanged.

Table No (1-3)

Developments in Non-oil-non-gas GDP

Million QR

Items	Nominal		Real	
	2004	2005	2004	2005
Production Sector	20,112	24,211	10,874	13,619
The Relative Share in NOG-GDP%	38.24	38.73	28.80	31.90
Rate of Growth %	59.5	20.4	8.20	25.20
Service Sector	32,478	38,282	26,885	29,075
The Relative Share in NOG-GDP%	61.76	61.24	71.20	68.10
Rate of Growth %	44.40	17.90	32.70	8.10
NONG –GDP Sectors	52,590	62,493	37,759	42,694
Rate of Growth %	49.8	18.8	24.6	13.1

Commodity Production Sectors Includes Agriculture and fishing sector, Manufacturing industries, Electricity Water and Buliding & Construcion Sector.

Viewing the NONG sectors by the nature of their output, one can observe that the nominal growth in the commodity-producing sectors was slower, while their real growth accelerated during 2005. Meanwhile, the output of the commodity-producing sectors grew by more than QR 4.0 billion, or 20.4%, vis-à-vis 59.5% in 2004, reaching an added value of QR 24.2 billion and representing 38.73% in relative share of nominal NONG GDP and contributing 41.39% of the nominal growth that the NONG GDP realized in 2005.

In real terms, real output of the commodity-producing sectors grew by QR 2.7 billion (in base-year prices of 2001) or 25.2%, vis-à-vis 8.2% in 2004, reaching an added value of QR 13.6 billion, and representing 31.90% of the NONG GDP against 28.80% in 2004, and contributing 55.62% to the overall real growth that the NONG GDP realized in 2005.

Table No (1-4)

Relative Contributions to Growth in Non-oil-non-gas GDP

Million QR

Realized Growth in:	2004		2005	
	Nominal	Real	Nominal	Real
Commodity Production Sectors	7,499	828	4,099	2,745
Relative Share in Total Sector %	42.91	11.12	41.4	55.62
Service Sectors*	9,979	6,618	5,804	2,190
Relative Share in Total Sector %	57.09	88.88	58.61	44.38
Total growth in NONG Sectors	17,478	7,446	9,903	4,935

Source: The Planning Council.

* Service sectors include: productive services sector, social services sector. The first includes: trade, hotels and restaurants, transportation and communications, finance and insurance sector, real-estate sector, financial services and business sector. The social services sector include: governmental services, opportunity cost financial services, social services, housekeeping services, and import duties.

Unlike the growth in the commodity-producing sectors output, the output of the service sector, both in nominal and real terms, experienced a slowing down in its growth in 2005, growing by QR 5.8 billion, or 17.9%, vis-à-vis 44.4% in 2004, reaching QR 38.3 billion, whereas the service sectors' real output (in constant prices of 2001) grew by QR 2.2 billion, or 8.1% , vis-à-vis 32.7% in 2004, reaching QR 29.1 billion.

Comparison between nominal and real rates of growth achieved for 2005 in commodity-producing sectors and services' sectors reveals that the average prices of the former fell by 3.88%, whereas the average prices in the latter rose by 8.99%.

Table No (1-5)

Developments in GDP Components by Expenditure Approach

Million QR

Items	In Current Prices		In 2001 Constant Prices	
	2004	2005	2004	2005
Government Consumption	15,094	17,769	10,217	11,494
Relative Share %	13.07	11.50	11.95	12.66
Rate of Growth %	14.4	17.7	- 3.7	12.5
Private Consumption	20,166	28,165	18,420	23,642
Relative Share %	17.46	18.22	21.54	26.04
Rate of Growth %	42.7	39.7	33.6	28.3
Change in Inventory	3,756	2,953	2,641	1,505
Relative Share %	3.25	1.91	3.09	1.66
Rate of Growth %	- 5.6	- 21.4	- 15.9	- 43.0
Fixed Capital Formation	34,808	51,886	30,363	45,901
Relative Share %	30.13	33.57	35.50	50.56
Rate of Growth %	34.4	49.1	3.1	51.2
Net Exports of Goods and Services⁽¹⁾	41,688	53,794	23,833	8,238
Relative Share %	36.09	34.80	27.93	9.07
Rate of Growth %	46.4	29.0	73.2	- 65.5
TOTAL	115,512	154,564	85,524	90,780
OVERALL GROWTH RATE	34.8%	33.8%	20.8%	6.1%

(1) These figures are different from those in the balance of payments due to differences in methodology.

It is worthy to mention here that the increase in private sector consumption expenditures in 2005 by almost QR 8.0 billion has directly contributed to the growth realized in nominal NONG GDP, representing about 80% of this growth, compared with 35% in 2004. However, this increase was smaller than expected, where the detailed GDP breakdown by major items of the expenditures approach reveals that unplanned investment items in 2005 reached about QR 3.0 billion, reflecting the increase in private savings over planned investment for 2005, or the falling of private consumption short of

its expected level; despite the fact that the unplanned investment fell short behind its level reached in 2004 by more than 20%.

On the other hand, the increase in private-sector consumption in 2005 coincided with a similar sizeable increase in the narrowly defined money supply (M_1), which grew by QR 7.8 billion, exceeding by more than 97% the increase experienced by private sector consumption. The fast increase in the rate of growth of the narrowly defined money supply (M_1) by more than what could be considered compatible with the rate of growth in private sector consumption, led to increasing the inflationary pressures manifested by the increased prices of goods and services, and especially nontradables' prices. As indicated by contrasting nominal and real growth rates realized in 2005, the private-sector consumption expenditures revealed that the averages of their prices rose by 8.89% during 2005, which is almost equal to the annual rate of inflation (8.81%) manifested by the annual CPI-inflation rate in Qatar for 2005.

Sectoral Analysis of NONG GDP

The growth in NONG GDP is an outcome of the developments in its major components in 2005. These sectors witnessed positive rates of growth, whether in nominal or in real rates, varying in magnitude from one sector to another. The only exception was the service sector's nominal rate of growth, which was the only sector to witness a decline in its product. Meanwhile, the Agriculture and Fishing sector's real rate of growth indicates no growth.

Table No (1-6)

Non-oil-non-gas GDP

Economic Activities	Million QR			
	2004		2005	
	Nominal	Real	Nominal	Real
Agriculture and Fishing	210	201	216	201
Manufacturing	11,995	4,929	13,042	5,551
Electricity and Water	1,482	1,143	2,209	1,479
Building and Construction	6,425	4,601	8,744	6,388
Trade, Restaurants and Hotels	6,148	5,616	6,869	5,767
Transport and Communications	4,020	4,010	5,114	4,674
Finance, Insurance, Real Estate, Business Services	9,925	7,484	14,785	8,762
Social and Other Services	12,385	9,775	11,514	9,872
Non-oil-non-gas GDP	52,590	37,759	62,493	42,694

In the remaining part of this chapter, the eight major sectors presented by Table No (1-6) will be discussed. Their collective production comprises the non-oil-non-gas GDP. The discussion is structured in terms of the sectors' developments and their relative

shares in current prices of 2005 (starting first with the most important sector) in the total of non-oil-non-gas GDP during 2005.

Table No (1-7)

Sectoral Shares and the Rates of Growth in the Non-oil-non-gas GDP

(%)

Economic Activities	2004		2005	
	Rate of Growth	Relative importance	Rate of Growth	Relative importance
Agriculture and Fishing	4.48	0.40	2.86	0.34
Manufacturing	83.05	22.81	8.73	20.87
Electricity and Water	22.99	2.82	49.06	3.53
Building and Construction	38.05	12.22	36.09	14.00
Trade, Restaurants and Hotels	41.50	11.69	11.73	11.00
Transport and Communications	38.10	7.64	27.21	8.18
Finance, Insurance, Real Estate, Business Services	53.97	18.87	48.97	23.66
Social and Other Services	40.79	23.55	- 7.03	18.42
Non-oil-non-gas GDP	49.78	100	18.83	100

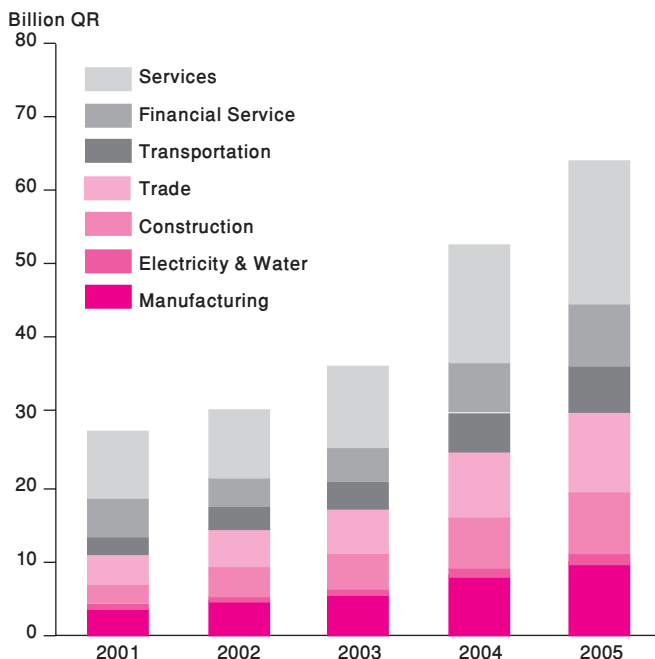
1. Finance, Insurance, Real Estate, and Business Services

The output level of this sector reached QR 14.8 billion vis-à-vis QR 9.9 billion only in 2004. The sector's "nominal" increase was the largest among the eight sectors comprising the non-oil-non-gas GDP in 2005 presented by Table No (1-7). The sector's nominal growth reached QR 4.9 billion or 49%. The sector's relative contribution of the

total nominal growth achieved by non-oil-non-gas GDP was 49.1% in 2005.

Figure No (1-2):

GDP of the Non-oil-non-gas Sectors



All four sub-sectors presented by Table No (1-8) comprising this sector grew-in nominal terms- by positive rates, albeit with some variation, in 2005. First, the banking sub-sector "nominal output" grew by QR 2.9 billion or 91.8%, reaching QR 6.1 billion, and contributing 60.47% to the total nominal growth realized by this sector. Second, the real-estate sub-sector output grew by of QR 1.23 billion or 27.9%, reaching QR 5.8 billion, and contributing 26.05% to the total nominal growth achieved by this sector. Third, the nominal output of business-services sub-sector grew by QR 229

million, or 13.9%, reaching QR 1.9 billion and contributing 4.71% of the total nominal growth achieved by this sector. Finally, the insurance and money exchange sub-sector nominal output grew by QR426 million, or 77.7%, reaching QR 974 million and contributing 8.77% of the total nominal growth achieved by this sector in 2005.

Table No (1-8)

Relative Contributions and Growth in the Non-oil-non-gas GDP Service Sector

Million QR

Items	Growth in 2005		Relative Contribution to growth
	Value	%	
The Banking Industry	2,939	91.84	60.47%
The Insurance Industry	426	77.74	8.77%
The Real Estate Industry	1,266	27.93	26.05%
Other Business Services	229	13.92	4.71%
Sector's Total	4,860	48.97	100%

The above-mentioned developments in the insurance, finance, real estate and other services sub-sectors helped increase their "relative importance" in nominal GDP (as seen in Table No 1-7) from 18.87% in 2004 to 23.66% in 2005, bringing it up from the third place in 2004 to the first place in 2005.

It is worth noting that "real output" of this sector has grown in real terms by QR 1.3 billion or 17.1% (in constant prices of 2001), contributing about 25.9% of the increase realized by "real non-oil-non-gas GDP" in 2005. In spite of the improvement in its relative share, which reached 20.52% in 2005 vis-à-vis 19.82% in 2004, this sector has remained in the second place among all sectors of non-oil-non-gas GDP achieved in 2004.

Noticeably, comparisons of nominal and real growth rates for this sector, in 2005, indicate clearly that more than 30% of its "nominal growth" can be attributed to rising prices by approximately 27.24% in the same year.

2. Manufacturing Sector

The 8.7% nominal growth rate in the value of the manufacturing sector output came out much slower than its counterpart, 83% in 2004. The manufacturing sector output increased by one billion to reach QR 13.0 in 2005. Thus, contributing about 10.57% to the overall non-oil-non-gas GDP nominal increase realized in 2005.

The above-mentioned developments in the manufacturing sector of GDP, especially the slower growth rate in 2005 vis-à-vis 2004; reinforced by the fact that it is slower than the overall nominal growth rate of non-oil-non-gas GDP; led to decreasing its relative share in the non-oil-non-gas GDP from 22.81% in 2004 to 20.87% in 2005. Despite

these developments, it was able to continue occupying the second place as in 2004 among the eight sectors comprising the nominal non-oil-non-gas GDP in 2005.

It is worth noting that the "real output" of the manufacturing sector grew at a rate (in real terms) of 12.6% in 2005, almost twice as fast the rate of 6.5% achieved in 2004. However, in spite of this fast growth in real terms, the relative importance of the manufacturing sector went down from the fourth place in 2004 to the fifth place in 2005. The increase of QR 622 million realized by the manufacturing sector real output (in constant prices of 2001), accounted approximately for 12.6% of the overall non-oil-non-gas real GDP growth in 2005.

Noticeably, comparisons of this sector's nominal and real growth rates in 2005 indicate an estimated 3.45% decline in prices of this sector's output.

3. The Service Sector

The service sector's "nominal output" experienced negative growth in 2005 by about QR (871) million, or -7.0%, after growing positively by 40.8% in 2004. This caused a retreating output from QR 12.4 billion in 2004 to QR 11.5 billion in 2005. The negative growth has been the outcome of several developments in the sub-sectors comprising this sector, all of which have grown at varying positive rates.

However, the removal of the sizeable relative contribution of the imputed financial services in the growth of this sector (QR 2.2 billion), have overweighed the remaining five sub-sectors contributions to growth. The remaining services sub-sectors are: government services rising by QR 541 million, or 4.6%; social services rising by QR 210 million, or 19.0%; housekeeping services rising by QR 70 million, or 7.1%; and import duties rising by QR 532 million, or 44.1%.

The retreat in "nominal output" of services sub-sectors resulted in the deterioration of the sector's relative share in the 2005 overall "nominal" non-oil-non-gas GDP from 23.55% in 2004 to 18.42%, and caused deterioration in its rank among all sectors comprising "nominal" non-oil-non-gas GDP from the first place in 2004 to a third place in 2005.

It is worth noting that the "real output" of the services sector, unlike the nominal output, experienced meager positive growth of QR 97 million, (in constant prices of 2001) or less than 1%, contributing less than 2% of the overall increase in real non-oil-non-gas GDP in 2005. In spite of its declining relative share - from 25.89% in 2004 to 23.12% in 2005 - the services sector's relative share sustained being in the first place among the relative shares of all other sectors comprising the non-oil-non-gas GDP.

Table No (1-9)

The Relative Contribution of the Sub-Sectors in the Nominal Growth of the Services Sector

Items	Growth in 2005		Relative Contributions to the Sector's Nominal Growth
	Value of Growth (QR million)	Rates of Growth %	
Government Services	541	4.56	- 62.11%
Imputed Fin. Services	- 2,224	80.55	255.34%
Other Services	812	24.62	- 93.23%
Social Services	210	19.02	- 24.11%
Housekeeping Services	70	7.09	- 8.04%
Import duties	532	44.08	- 61.08%
Sector's Total	- 871	- 7.03	100%

Noticeably, comparison of the services sector's nominal and real growth rates in 2005 indicates an estimated 7.94% decline in average prices of this sector's output.

4. Building and Construction Sector

The building and construction sector realized the second largest absolute value increase among all non-oil-non-gas economic sectors in 2005, amounting to QR 2.3 billion, or 36.1%. Thus, it contributed 23.42% to the overall nominal growth realized by the non-oil-non-gas GDP in 2005. This sector's output amounted to QR 8.7 billion, up from its 2004 level of QR 6.4 billion. In spite of the fact that this sector's 38.1% rate of growth is marginally lower than the rate of growth achieved in 2004, being more than two-fold the 18.8% rate of growth realized by non-oil-non-gas sectors of GDP, helped push its relative share from 12.22% in 2004 up to almost 14% in 2005. However, the building and construction sector kept its fourth rank among all other sectors comprising the non-oil-non-gas GDP unaltered.

It is worth noting that the building and construction sector "real output" during 2005 witnessed the highest increases, both absolute and relative, growing by 38.8% in 2005, which is equivalent to 463% of its counterpart for 2004. This reflects the country's highest leap ever in building and construction activities. This also helped improve this sector's relative position from the fifth place to the third place. The increase in the real output of the building and construction sector which approximates QR 1.8 billion (in constant prices of 2001) contributed about 36.21% of the overall increase realized in non-oil-non-gas real GDP in 2005.

5. Trade, Commerce, Restaurants, and Hotels

This sector's rate of growth witnessed a noticeable slowdown in 2005, after the strong growth witnessed in 2004 by this sector, its growth dipped down in 2005 to

11.7% from 38.1% in 2004. Thus, the humble increase of QR 721 million in 2005 above its equivalent increase in 2004, which helped the output of this sector reach QR 6.9 billion in 2005 and contribute 8.8% approximately of the overall nominal increase realized in the non-oil-non-gas GDP during 2005.

Table No (1-10)

The Relative Contribution of Commerce, Hotels, and Restaurants Sector in the Nominal Growth of Non-oil-non-gas GDP

Sub-sectors	Growth in 2005		Relative Contributions to the Sector's Nominal Growth %
	Value of Growth (QR million)	Rates of Growth %	
Trade and Commerce	310	5.91	43.00
Hotels	354	72.84	49.10
Restaurants	57	13.57	7.90
Sector's Total	721	11.73	100

All sub-sectors comprising this sector grew positively, albeit at varying rates, from one sub-sector to another. The hotels' sub-sector output recorded a growth by QR 354 million, or 72.8% in 2005, reaching QR 840 million and contributing about 49.1% of the overall increase recorded by this sector. Whereas, commerce & trade sub-sector recorded an increase by QR 310 million, or 5.9%, reaching QR 5.6 billion in output, and contributing about 43% of the sector's overall increase. Finally, the restaurants' sub-sector recorded an increase by QR 57 million or 13.6%, reaching QR 477 million in output, and contributing 7.9% to the sector's overall increase realized during the year.

The above-mentioned developments in these sub-sectors during 2005 helped push this sector's relative share in the non-oil-non-gas GDP in current prices down from 11.69% in 2004 to just 11.0% in 2005. However, this did not influence the fifth place it occupied in both years.

It is worth noting that this sector's real output during 2005 witnessed a severe slowdown in its rate of growth, which amounted to 2.7% in 2005, vis-à-vis 32.5% in 2004. Thus, increasing by only QR151 million (in the constant prices of 2001) and contributing about 3.06% of the overall increase achieved in non-oil-non-gas GDP in 2005. Thus, its relative share in the non-oil-non-gas GDP retreated from 14.87% in 2004 to 13.51% in 2005. Therefore, its rank went down from third place in 2004 to the fourth place in 2005.

Noticeably, comparisons of the trade & commerce, hotels and restaurants sub-sectors' nominal and real growth rates during 2005 indicate that a considerable

proportion of the nominal growth is attributable to higher average prices of its output which rose by 8.8% approximately in 2005.

6. Transport and Communications Sector

The transport and communications sector's nominal output grew by QR 1.1 billion, or 27.2% in 2005, reaching QR 5.1 billion vis-à-vis about QR 4.0 billion in 2004. Thus, its nominal growth contribution reached about 11.05% of the nominal overall growth in the non-oil-non-gas GDP.

The sub-sectors comprising this sector witnessed varying positive rates of growth. The communications sub-sector nominal output increased by QR 771 million, or 36.3%, reaching QR 2.9 billion, thereby contributing about 70.48% of the overall increase realized by this sector. Whereas the transportation sub-sector nominal output increased by QR 323 million, or 17%, reaching QR 2.2 billion, thereby contributing about 29.52% of the overall increase realized by this sector during 2005.

Table No (1-11)

Relative Contribution of Transport and Communications Sector in Nominal Growth of Non-oil-non-gas GDP

Sub-sectors	Growth Realized in 2005		Relative Contribution %
	Value of Growth (QR million)	Rate of Growth %	
Transportation	323	17.04	29.52
Communications	771	36.30	70.48
TOTAL	1,094	27.21	100

The slowing down of the "nominal growth" rate in 2005, from 38.1% in 2004 to 27.2% in 2005 did not prevent this sector's relative share from rising from 7.64% in 2004 to 8.18% in 2005. Similarly, it did not alter the sector's sixth place ranking either.

It is worth noting that this sector's "real output" during 2005 witnessed a severe slowdown in its real rate of growth, from 36.7% in 2004 to 16.6% in 2005, thus increasing by QR 664 million (in constant prices of 2001) and contributing about 13.45% to the overall increase realized by the non-oil-non-gas GDP in 2005. Furthermore, in spite of the previously mentioned slowdown in this sector's rate of growth, this sector's contribution improved in 2005 vis-à-vis its counterpart of 2004, recording 10.95% this year against 10.62% last year, and with no change in the ranking of this sector which came sixth.

It is also worth noting that by comparing the real and nominal rates of growth realized in 2005 by the communications and transport sector, it becomes clear that a

considerable part of the nominal growth is attributable to the increase in average prices of this sector's products which increased by 9.14%.

7. Electricity and Water Sector

The electricity and water sector realized the highest rate of growth among all non-oil-gas sectors of GDP, and it was the only sector witnessing an acceleration of growth rate in 2005; recording a nominal rate of growth at 49.1% vis-à-vis 23.0% in 2004, reaching a production level of QR 2.2 billion, that is an increase by QR 727 million, and contributing about 7.34% to the overall nominal increase recorded by the non-oil-non-gas GDP in 2005. The strong growth realized by this sector led to strengthening its relative share to 3.53% by the end-of 2005 vis-à-vis 2.82% by the end-of 2004. However, this improvement did not influence this sector's rank in the seventh place.

It is worth mentioning that the real output of the electricity and water sector has also witnessed an acceleration in its real rate of growth which reached 29.4% in 2005 vis-à-vis 17.4% in 2004. This sector's output increased by QR 336 million (in constant prices of 2001), contributing about 6.81% to the total real increase realized by the non-oil-non-gas GDP in 2005.

It is also worth noting that by comparing the real and nominal rates of growth realized in 2005 by the electricity and water sector, it becomes clear that a considerable part of the nominal growth is attributable to the increase in average prices of this sector's products which increased by 15.19%.

8. Agriculture and Fishing Sector

The agriculture and fishing sector realized a positive rate of growth in 2005, however at a humble rate of 2.9%, against 4.48% in 2004. This sector's contribution to the overall increase realized by the non-oil-non-gas GDP was limited to less than 0.1%, thus causing a decline in its relative share from 0.4% in 2004 to 0.34% in 2005, thus ranking last among all non-oil-non-gas sectors.

It is also worth noting that the real output of the agriculture and fishing sector did not witness any change at all in 2005, thus the positive growth witnessed by this sector is attributable to the increase in average prices of this sector's products which increased by 2.86% in 2005.

Table No (1-12)

Price Changes in the Economic Sectors of GDP in 2005

(%)

Economic Activity	Growth Rates		Change in Average Prices
	Nominal	Real	
Commodity Production Sectors:	20.38	25.24	-3.88
Agriculture and Fishing	2.86	0.00	2.86
Manufacturing	8.73	12.62	-3.45
Electricity and Water	49.06	29.40	15.19
Building and Construction	36.09	38.84	-1.98
Services Sectors	17.87	8.15	8.99
Trade, Restaurants and Hotels	11.73	2.69	8.80
Transport and Communications	27.21	16.56	9.14
Finance, Insurance, Real Estate, and Business Services	49.97	17.08	27.24
Services	-7.03	0.99	-7.95
Non-oil-non-gas GDP	18.83	13.07	5.09
Oil and Gas	46.33	0.56	45.52
GDP	33.81	6.08	26.14

Table No (1-13)

The Rates of Growth and Relative Shares of the Non-oil-non-gas GDP Real Sector

(%)

Real Economic Sectors	2004		2005	
	Real Growth	Relative Share	Real Growth	Relative Share
Agriculture and Fishing	1.01	0.53	0.00	0.47
Manufacturing	6.50	13.05	12.62	13.00
Electricity and Water	17.35	3.03	29.40	3.47
Building and construction	8.39	12.19	38.84	14.96
Trade, Restaurants and Hotels	32.48	14.87	2.69	13.51
Transport and Communications	36.72	10.62	16.56	10.95
Finance, Insurance, Real Estate, Business Services	37.65	19.82	17.08	20.52
Social and Other Services	27.64	25.89	0.99	23.12
TOTAL	24.56	100	13.07	100

Table No (1-14)

GDP in Current Prices Classified by Economic Activities

Million QR

Real Economic Activity	2002	2003	2004	2005
Agriculture and Fishing	181	201	210	216
Oil and gas	40717	50551	62922	92071
Manufacturing	5076	6553	11995	13042
Electricity and Water	409	1205	1482	2209
Building and construction	3593	4654	6425	8744
Trade, Restaurants and Hotels	3969	4345	6148	6869
Transport and Communications	2489	2911	4020	5114
Finance, Insurance, Real Estate, Business Services	5802	6446	9925	14785
Social and Other Services	8248	8797	12385	11514
GDP	70484	85663	115512	154564
<i>Rate of Growth %</i>	10.4%	21.5%	34.8%	33.8%
Oil and gas	40717	50551	62922	92071
<i>Proportion of the Total %</i>	57.8%	59.0%	54.5%	59.6%
<i>Rate of Growth %</i>	10.6%	24.2%	24.5%	46.3%
<i>Non-oil-non-gas GDP</i>	29767	35112	52590	62493
<i>Proportion of the Total %</i>	42.2%	41.0%	45.5%	40.4%
Rate of Growth %	10.1%	18.0%	49.8%	18.8%

Table No (1-15)

GDP in Constant Prices of 2001 Classified by Economic Activities

Million QR

Economic Activities	2002	2003	2004	2005
Agriculture and Fishing	179	199	201	201
Oil and Gas	40144	40468	47765	48032
Manufacturing	4316	4628	4929	5551
Electricity and Water	414	974	1143	1479
Building and construction	3287	4245	4601	6388
Trade, Restaurants and Hotels	3957	4239	5616	5767
Transport and Communications	2757	2933	4010	4674
Finance, Insurance, Real Estate, Business Services	5677	5437	7484	8762
Other Services	7663	7658	9775	9872
GDP	68394	70781	85524	90726
<i>Rate of Growth %</i>	7.1%	3.5%	20.8%	6.1%
<i>Oil and gas</i>	40144	40468	47765	48032
<i>Proportion of the Total %</i>	58.7%	57.2%	55.8%	52.9%
<i>Rate of Growth %</i>	9.1%	0.8%	18.0%	0.6%
<i>Non-oil-non-gas GDP</i>	28250	30313	37759	42694
<i>Proportion of the Total %</i>	41.3%	42.8%	44.2%	47.1%
<i>Rate of Growth %</i>	4.5%	7.3%	24.6%	13.1%

Prices

The Consumer Price Index (CPI) increased by 12.62% in the fourth quarter of 2005, reaching 125.83 points vis-à-vis 111.73 points during the same period of 2004. The year 2005 witnessed noticeable acceleration in inflation; while it recorded an increase by 3.49% only in the first quarter of 2005, it jumped by 8.49% in the second quarter, 10.49% in the third quarter, and 12.62% in the fourth quarter, compared with the same periods of 2004. Most of the increase came in the rent item, which alone rose by 35.39% in the fourth quarter of 2005 on an annual average basis. By excluding the rent item from the CPI, the inflation rate (the core inflation), goes down to 4.8% most of which is concentrated in the furniture and furnituring (10.87%) and various goods and services items (8.03%), which are tradable and imported from abroad. In what follows, a discussion of the developments in the various components of the CPI is in order.

1. Food, Beverages and Tobacco

The price index of the food, beverages and tobacco group increased by 4.13% reaching 110.32 points in the fourth quarter 2005 as a result of the spillover effects of rising rent. The prices of these items were rising gradually from 1.79% in the first quarter, 2.24% in the second quarter, 4.14% in the third quarter, and 4.31% in the fourth quarter as an annualized average basis.

2. Garments and Footwear

On the contrary of what happened in 2004 when the price level of these items increased on average by 8.1%, these prices varied considerably from one quarter to the other in 2005. While the index of these items witnessed an increase in the first quarter by 4.1%, reaching 106.57 points, it declined sharply in the second and third quarters reaching 97.89 points, before it resumed rising in the fourth quarter reaching 104.31 points, which is still lower than the 106.23 points level reached in the fourth quarter of 2004.

3. Rent and Fuel

The rent and prices of fuel witnessed a large increase in 2005 for the second consecutive year. The increase took place in all four quarters of the year, but it started rising in the first quarter by 8.92% (y-o-y), by 29.6% in the second quarter, then by

30.01% in the third quarter, reaching its peak of 35.39% in the fourth quarter, as the index reached to 195.80 points vis-à-vis 144.62 points in the fourth quarter of 2004. This sharp increase was due to the shortage created by evictions and demolishing of old buildings and due to the increased demand which stemmed from strong economic growth and increased population.

4. Furniture and Furnishings

The prices of the furniture and furnishings group increased during the second half of 2005. After decreasing by 0.8% in the first quarter. The price index of this group increased slightly by 1.08% in the second quarter, and started to accelerate in the third quarter, increasing by 6.82% and by 10.87% in the third and fourth quarters of 2005 respectively; (yoy) thus pushing the index up to 113.21 points. This noticeable increase in the prices of furniture and furnishings could be attributed to spillover effects of the rising rent, since international inflation in 2005 was generally stable.

5. Health Care Services

The price index of this group increased during 2005 for the second consecutive year for the same reasons mentioned above, that is the spillover effects of rising rent inflation. The quarterly rises in this index were almost the same except for the third

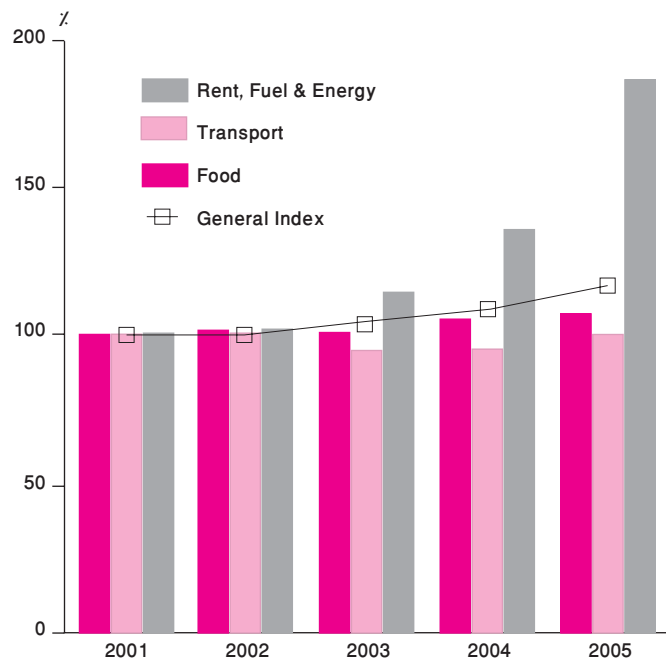
quarter, as the index increased by 7.31% above the third quarter of 2004. The index reached 104.8 points, an increase of 3.7% above the same quarter of 2004.

6. Transport and Communications

The prices of this group recorded an increase by 5.72% in the last quarter of 2005 compared with the same quarter of 2004. Part of the increase, which occurred in the second half of the year, could be attributed to the rising air fares. The price index of this group reached 103.07 points in the fourth quarter of 2005 vis-à-vis 97.49 points a year earlier.

Figure No (1-3):

The Consumer Price Index (CPI)



7. Education, Recreation and Culture

Contrary to the general price index (CPI) and other component groups, (except for the group of clothing, garments and footwear) the price index of Education, Recreation

and culture declined in the second half of 2005 by 1.94% in the fourth quarter, pushing the index of this group down to 101.77 points vis-à-vis 103.78 points in the fourth quarter of 2004. Since this group contains services only, the decline in their prices reflects the decrease in demand for such services in light of the rising cost of living in general and its negative impact on family budgets.

8. Miscellaneous Goods and Services

The price increase in this group varied from one quarter to another in 2005. Most of the increase occurred in the second quarter (4.16%) and in the fourth quarter (8.03%). The index of this group reached 122.42 points in the fourth quarter of 2005 vis-à-vis 113.32 points in the fourth quarter of 2004.

Figure No (1-4):

Percentage Change in the Price of Rent and the CPI

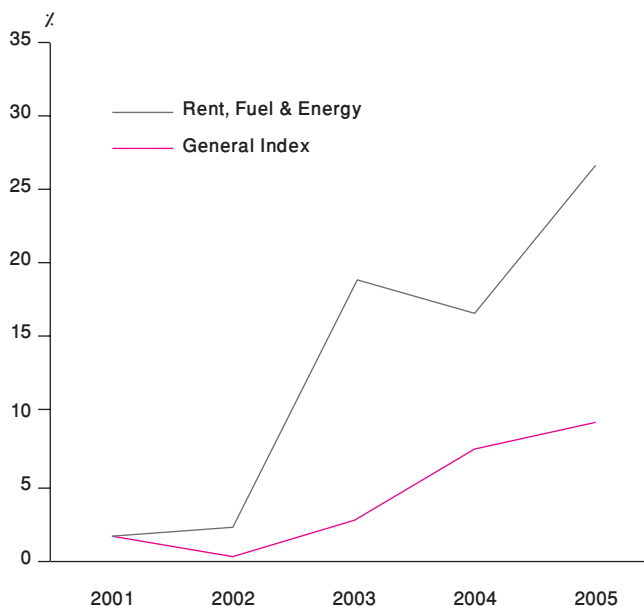


Table No (1-16)

Consumer Price Indexes (CPI) and Inflation Rates in 2005 (2001=100)

Items	2004				2005				Inflation Rates in 2005			
	Q:1	Q:2	Q:3	Q:4	Q:1	Q:2	Q:3	Q:4	Q:1	Q:2	Q:3	Q:4
Food, Beverages and Tobacco	103.57	103.15	104.41	105.76	105.42	105.46	108.73	110.32	1.79	2.24	4.14	4.31
Garments and Footwear	102.37	104.45	105.33	106.23	106.57	98.45	97.89	104.31	4.10	-5.74	-7.06	-1.81
Rent, Fuel and Energy	133.75	138.31	141.53	144.62	145.68	179.25	184.01	195.8	8.92	29.60	30.01	35.39
Furniture and Furnituring	103.20	103.07	99.27	102.11	102.37	104.18	106.04	113.21	-0.80	1.08	6.82	10.87
Health Care Services	98.34	98.64	97.66	101.06	101.51	102.25	104.80	104.80	3.22	3.66	7.31	3.70
Transport and Communications	95.4	95.36	95.68	97.49	96.52	96.12	103.11	103.7	1.17	0.80	7.77	6.37
Education, Recreation and Culture	100.54	101.62	103.15	103.78	102.19	102.99	101.7	101.77	1.64	1.35	-1.41	-1.94
Miscellaneous Goods and Services	109.74	107.98	110.31	113.32	112.34	112.47	112.34	122.42	2.37	4.16	1.84	8.03
The General Price Index	107.72	108.75	109.73	111.73	111.48	117.98	121.24	125.83	3.49	8.49	10.49	12.62

The Labor Force

Estimates issued by the Department of Statistics at the Planning Council indicate that the population of the state of Qatar reached 796,000 at the mid of 2005, and has probably risen to 838,000 by mid 2006, i.e. growing by 5.3% per annum. According to the official census, actual population was 744,000 in April 2004.

No aggregate statistics is available on the labor force in Qatar; the figures published by the Department of Statistics contain only the number of workers in the Government, Government Institutions, semi publicly-owned Sector; hotels and the financial services sector. The total number of workers in all of these sectors at the end-of 2005 reached 91,946 persons, increasing 5.2% above the level reached at the end of 2004. This percentage is very close to the real rate of growth in 2005, which seems logical.

Qatari nationals constituted approximately 38,000 persons, or 41.3% of the total work force at the end of 2005, slightly increasing by no more than 1% from the level reached by the end of 2004. The Qatari nationals were distributed among the above-mentioned sectors as follows: 21,300 males, or 56.1%, and 16,700 females, or 43.9%. The total number of government employees reached 37,700 workers, of whom 25,900 or 68.7% qatari workers and 11,800 or 31.1% foreigners.

It is worth noting that the total number of workers in the government has declined slightly by 410 workers in 2005 (less than 1%), all of them were foreign workers only. The year 2005 witnessed a noticeable increase in the number of workers in other sectors. The number of workers in government institutions and government-owned corporations increased by 3.4% or slightly above 31,000 workers; the number of private sector workers (banks, insurance companies, and hotels) increased by 17.3% or 6465 workers; and finally, the workers of the mixed ownership sector rose by 20.8% or 16,800 workers.

Table No. (1-17) gives more details about the number of workers in the above-mentioned sectors during the period 2002-2005.

Table No (1-17)

Classification of Workers by Sector and Nationality

	Nationality	Gov't Sector	Gov't. Institutions and Gov't. Corporations	Mixed Sector	Private Sector [*]	Totals		
						Males	Females	Total
2002	Qatari	23,406	7,095	2,339	443	19,678	13,605	33,283
	Non-Qatari	12,075	15,113	9,863	4,196	33,783	7,464	41,247
	Total	35,481	22,208	12,202	4,639	53,461	21,069	74,530
2003	Qatari	25,170	7,566	2,610	499	20,758	15,087	35,845
	Non-Qatari	12,477	16,813	10,404	4,498	35,378	8,814	44,192
	Total	37,647	24,379	13,014	4,997	56,136	23,901	80,037
2004	Qatari	25,816	8,753	2,745	556	21,574	16,296	37,870
	Non-Qatari	12,188	21,242	11,161	4,954	39,113	10,432	49,545
	Total	38,004	29,995	13,906	5,510	60,687	26,728	87,415
2005	Qatari	25,876	8,498	3,034	602	21,319	16,691	38,010
	Non-Qatari	11,778	22,528	13,767	5,863	42,144	11,792	53,936
	Total	37,654	31,026	16,801	6,465	63,463	28,483	91,946
% Change in 2005	Qatari	0.23	-2.91	10.53	8.27	-1.18	2.42	0.37
	Non-Qatari	-3.36	6.05	23.35	18.35	7.75	13.04	8.86
	Total	-0.92	3.44	20.82	17.33	4.57	6.57	5.18

^{*} Includes Banks, insurance companies, and hotels only.

BOX (2)**Rate of Unemployment in the Industrial Countries**

Unemployment rates in the industrial countries have declined over 2005 for the second consecutive year. The rate of unemployment in the USA decreased to 5.1% end-2005 vis-à-vis 5.5% end-2004. Other industrial countries witnessed decreases in their unemployment rates, where the rate declined to 4.4% in Japan, 8.6% in the Euro zone, and 6.8% in Canada.

On average, the rate of unemployment in the industrial countries decreased to 6.0% at the end of 2005, vis-à-vis 6.3% in 2004.

The Rates of Unemployment in Industrial Countries (%)

Countries	2001	2002	2003	2004	2005
Advanced Economies (Average)	5.8	6.3	6.6	6.3	6.0
USA	4.7	5.8	6.0	5.5	5.1
Japan	5.0	5.4	5.3	4.7	4.4
Euro Zone	7.8	8.3	8.7	8.9	8.6
UK	5.1	5.2	5.0	4.8	4.7
Canada	7.2	7.6	7.6	7.2	6.8

Source: World Economic Outlook, April 2006.

Government Expenditures are considered as an important source of financing the economic development projects in the state of Qatar, and as an important tributary of income, expenditure, and domestic liquidity stream at the macroeconomic level of the economy. In recent years, government expenditures increased continuously in tandem with the increasing government revenues, and the general government budget recorded surpluses for the fifth consecutive year.

It is well known that the main source of government revenues in Qatar comes from the proceeds of selling oil and gas, in addition to the returns on investment, various customs duties and tariffs, and others. On the other hand, government expenditures are distributed among wages and salaries, services and supplies, interest on loans, and the financing of the main capital and infrastructure projects. The following is a brief exploration of the main features of the government budget for FY 2005/2006 and the estimated figures of the budget for FY 2006/2007.

The General Budget for 2005/2006

1. Public Revenues

The data presented by Table No (1-17) reveals that the preliminary figures of actual Public Revenues increased in fiscal year (FY) 2005/2006 by 18.0% to reach QR 65 billion versus QR 55.1 billion in FY 2004/2005. In addition, the actual revenue of FY 2005/2006 was 70.9% above the budget estimates for FY 2005/2006. The rise in the actual public revenues in FY 2005/2006 was basically due to the rise in oil prices and the resulting revenues. Oil and gas revenues accounted for 67.1% or QR 43.6 billion vis-à-vis 66%, or QR 36.3 billion, in the year before, whereas investment revenues represented 21.9%, or QR 14.2 billion, compared with 24.9%, or QR 13.7 billion in FY 2004/2005.

2. Public Expenditures

Actual public expenditures presented by Table No (1-17) reflect an increase by 40.8%, reaching QR 50.8 billion, vis-à-vis QR 36.1 billion in FY 2004/2005. Thus, the general budget did enjoy a surplus of QR 14.2 billion, a decrease of 25.4% from the QR 19.0 billion surplus level achieved in FY 2004/2005. Table No (1-17) sheds more details on the distribution of the public expenditure among current and capital expenditures. It is

noted that current expenditures amounted QR 32.8 billion, while capital expenditures amounted QR 18.1 billion. That is, 64.4% of total expenditures was allocated for current expenditures and 35.6% was allocated for the capital expenditures.

Table No (1-18)

Actual and Preliminary Estimates for the State General Budget

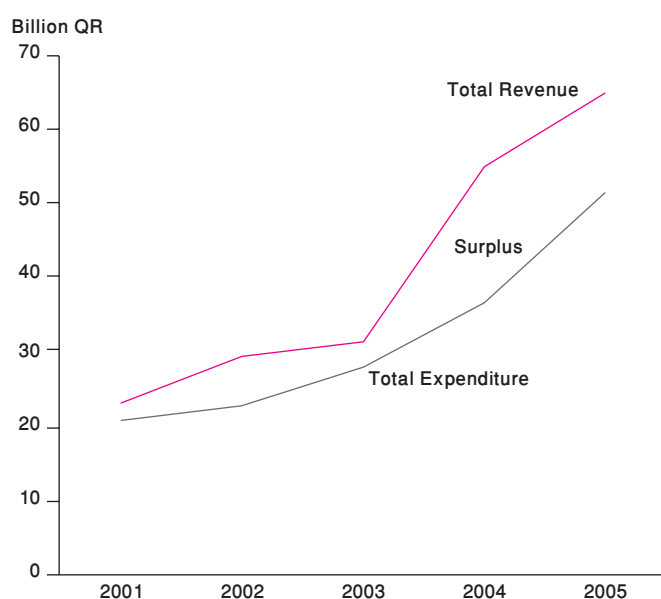
Million QR

Budget Items	Preliminary Estimates			Actual		
	2003/04	2004/05	2005/06	2003/04	2004/05	2005/06*
Total Revenues	21,586	26,192	38,028	30,563	55,064	64,984
Oil and Gas Revenues	12,110	14,456	20,827	18,593	36,319	43,616
Investment Revenues	6,851	8,153	12,550	8,063	13,711	14,233
Other Revenues	2,625	3,583	4,651	2,907	5,034	7,135
Total Expenditures	23,312	28,352	37,811	27,187	36,102	50,833
Current Expenditures	17,158	19,469	26,082	21,921	28,270	32,761
Wages and Salaries	6,056	6,273	6,315	6,244	7,940	6,657
Interest Payments	1,450	1,200	1,571	1,942	1,880	1,922
Supplies and Services	1,148	1,172	1,004	1,943	1,572	1,008
Other Expenditures	8,504	10,824	17,192	11,792	16,878	23,174
Capital Expenditures	6,154	8,883	11,729	5,266	7,832	18,072
Surplus or Deficit (-)	-1,726	-2,160	217	3,376	18,962	14,151

* Preliminary Figures , Source: The Ministry of Finance.

The main components of public expenditures are described as follows:

Figure No. (1-5):
The General Budget



1. Wages and salaries in fiscal year 2005/2006 reached QR 6.7 billion, decreasing by 16.2% from previous year's level which was QR 7.9 billion. The wages and salaries represented 13.1% of total public expenditure in FY 2005/2006 vis-à-vis 22% in FY 2004/2005. The partial privatization of the education sector is the main justification for wages and salaries decline in FY 2005/2006.
2. Interest Payments: against the domestic and external loans increased in FY 2005/2006 by 2.2%, reaching QR 1.92 billion vis-à-vis QR 1.88 billion in FY

2004/2005. The increase is attributed partially to rising interest rates in 2005. However, its share of the total public expenditures declined to 3.8%, vis-à-vis 5.2% in the previous fiscal year.

3. Supplies and Services Expenditures declined in FY 2005/2006 to about QR 1.0 billion due to the above-mentioned privatization factor.
4. Other Current Expenditures increased in FY 2005/2006 by 37.3% reaching QR 23.2 billion. It represented 45.6% of total public expenditure, vis-à-vis 46.8% in FY 2004/2005.
5. Capital Expenditures increased by 130.8% reaching QR 18.1 billion vis-à-vis QR 7.8 billion in 2004/2005. Thus, total expenditure has been distributed in 2005/2006 among capital expenditure and current expenditure, by 35.6% and 64.4%, vis-à-vis 21.7% and 78.3% respectively, in the previous fiscal year.

Estimates of the State Budget for FY 2006/2007

The Ministry of Finance (MOF) imputation of the revenue for the fiscal year 2006/2007 was based on 36\$ per barrel compared with \$27 in the previous year. The price base increment was expected as the average oil price has exceeded \$53 per barrel in mid 2005. The public revenues were estimated by QR 56,901.8 million, a decrease of 12.4% from the QR 64,984 million actual revenues of the previous year.

On the other side, the total expenditures for the year 2005/2006 have been raised by 7.3% to reach QR 54,568.2 million vis-à-vis QR 50,833 million in FY 2004/2005. Thus, it is estimated that the Budget will realize a surplus of QR 2,334 million against an actual surplus of QR 14,714 million in FY 2005/2006.

Table No (1-19)

Preliminary Estimates for the State Budget

Budget Items	Million QR		
	2005/2006 Actual	2005/2006 Estimates	2006/2007 Estimates
Total Revenues	64,984	38,028	56,902
Oil and Gas Revenues	43,616	20,827	31,050
Investment Revenues	14,223	12,550	17,817
Other Revenues	7,135	4,651	8,035
Total Expenditures	50,833	37,811	54,568
Recurrent Expenditure	32,761	26,082	34,668
Wages and Salaries	6,657	6,315	7,167
Interest Payments	1,922	1,571	2,463
Supplies and Services	1,008	1,004	1,340
Other Expenditure	23,174	17,192	23,698
Capital Expenditures	18,072	11,729	19,900
Surplus or Deficit (-)	14,151	217	2,334

Most of the increase in public expenditures has occurred in 2006/2007 estimates of capital expenditures on infrastructure; increasing by 10.1% to reach QR 19,900 million, vis-à-vis an actual QR 18,072 million in FY 2005/2006.

It is noted that the communications' allocation has been doubled 9 times in FY2006/2007 budget to reach to QR 4,511 million compared with QR 489 million only in FY 2005/2006; thus representing 22.7% of the total capital expenditures. Moreover, the allocation for the roads has been doubled to QR 3,505 million, representing 17.6% of the total capital expenditures, vis-à-vis QR 1,567 million in the previous fiscal year. The allocations of the electricity and water sector amounted QR 3,017 million, which represents 15.2% of the total capital expenditures.

Table No (1-20)

Major Project Allocations of the Estimated Capital Expenditures for 2006/2007

Allocations for	Allocations (in QR Million)	Relative Importance %
Health	629	3.2
Education	580	2.9
Housing and Public Buildings	584	2.9
Roads	3,505	17.6
Communications	4,511	22.7
Social Services	1,939	9.7
Electricity and Water	3,017	15.2
Reclamation and Land Acquisitions	2,019	10.1
Consulting and Technical Research for Other Projects	3,116	15.7
TOTAL	19,900	100



Section II

Banking, Financial Sector and the Balance of Payments

Chapter Four

The Banking Sector

4

Chapter Five

The Financial Sector

5

Chapter Six

**Foreign Trade and the
Balance of Payments**

6

Domestic Liquidity Developments

Defined as broad money (M_2), domestic liquidity continued its vigorous growth, which started some years ago, stimulated by many positive developments realized by the Qatari economy on the fronts of economic development and large increase in population; both of which represent higher levels of effective demand, which in turn entail increased demand for money. The most obvious acceleration in 2005 was realized in the rate of domestic liquidity growth, leaping by to QR 19.4 billion or 43.3% in 2005, vis-à-vis QR 7.6 billion or 20.5% in 2004. Thus, domestic liquidity (M_2) jumped from QR 44.9 billion in 2004 to QR 64.3 billion in 2005, which led to a rise in the (M_2 /GDP) ratio from 38.8% by the end of-2004 to 41.6% by the end of 2005, a decline in currency velocity of circulation from 2.57 in 2004 to 2.40 in 2005.

Investigation of developments taking place in the components of domestic liquidity (M_2) during the year reveals that all of these components without exception have contributed to the (M_2) growth during the past few years, especially 2004 and 2005, although with varying rates of growth and contributions.

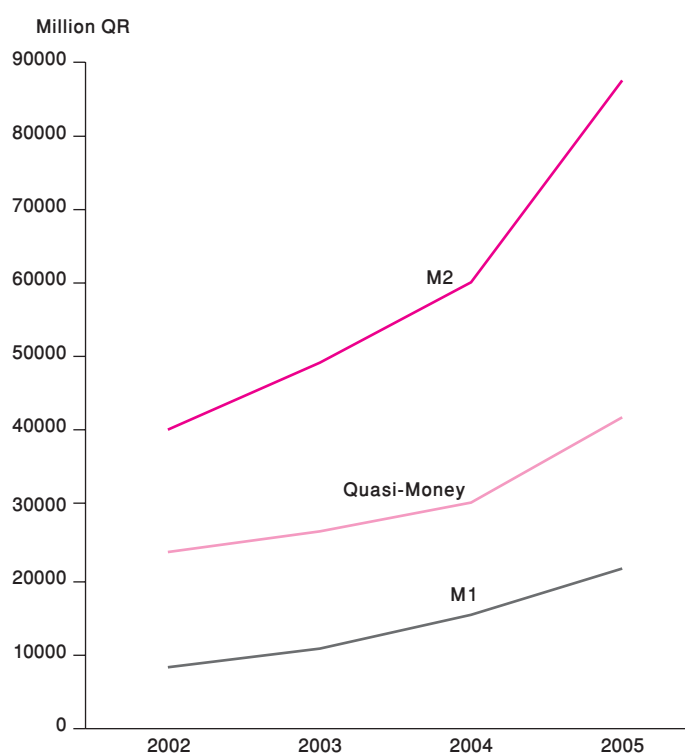
Table No (2-1)

Items	2004	2005	Change	
			Value	%
Money Supply (M_1)	14,598.4	22,362.2	7,763.8	53.2
Relative Importance %	32.5	34.8	40.0	
Quasi Money	30,226.6	41,908.7	11,642.1	38.5
Relative Importance %	67.5	65.2	60.0	
Domestic Liquidity	44,865.0	64,270.9	19,405.9	43.3

The narrowly defined money supply (M_1), which represents the first component of domestic liquidity, strongly grew in 2005 by QR 7.8 billion or 53.2%, contributing about 40% of the total increase in (M_2) during 2005. Thus, (M_1) relative share in domestic liquidity improved from 32.5% by the end of 2004 to 34.8% by the end of 2005.

The second component of domestic liquidity, i.e. quasi money (QM), also witnessed a similar strong growth in 2005 that amounted to QR 11.6 billion, or 38.5%, thus contributing about 60% of the total increase in domestic liquidity in 2005. In spite of the fact that the QM contribution to growth in (M_2) was larger than that of (M_1) by almost 50%; its rate of growth being less than that of (M_1) led to a decline in its relative share from 67.5% in 2004 to 65.2% end-2005.

**Figure No (2-1):
The Money Supply**



The above developments indicate change in the composition of domestic liquidity (M_2) due to an increase in demand for currency for speculation on various assets in general and on the Doha Securities Market in particular.

Money Supply (M_1)

Similar to the developments in domestic liquidity (M_2), the narrowly defined money supply (M_1) continued growing strongly in 2005, as it did in several years, increasing by QR 7.8 billion, or 53.2%, vis-à-vis QR 3.3 billion, or 29.4%, in 2004. Thus, money supply (M_1) reached QR 22.4 billion, raising the ratio of (M_1) to non-oil-non-gas GDP to 35.8% at the end of 2005 vis-à-vis 27.8% at the end of 2004, slowing (M_1) velocity of circulation, measured against non-oil-non-gas GDP from 3.60 in 2004 to 2.79 in 2005.

Table No (2-2)

Composition of the Money Supply (M_1)

Million QR

Items	2004	2005	Change	
			Value	%
Currency in Circulation	2,594.0	2,865.6	271.6	10.5
Relative Importance %	17.8	12.8	3.5	
Demand Deposits	12,004.4	19,496.6	7,492.2	62.4
Relative Importance %	82.2	87.2	96.5	
Money Supply (M_1)	14,598.4	22,362.2	7,763.8	53.2

Investigation of the developments that occurred in 2005 reveals that all the components of the narrowly defined money supply (M_1) have contributed to its growth during the past four years, but with varying rates of growth and contributions during these years.

The first item of (M_1) is currency in circulation, which grew moderately by QR 271.6 million or 10.5%; contributing about 3.5% only of the total increase in (M_1); thus, its relative share in the composition of (M_1) shrank from 17.8% in 2004 to 12.8% in 2005.

The second item of (M_1) is the QR-demand deposits, which grew strongly by QR 7.5 billion, or 62.4%, contributing the remaining 96.5% of the total increase in (M_1); this caused its relative share in the composition of (M_1) to expand from 82.2% in 2004 to 87.2% in 2005.

These developments, in the items comprising the narrowly-defined money (M_1), led to a continuous decline in the ratio of liquidity preference, from 23.5% at the end of 2003 to 21.6% at the end of 2004 and to 14.7% by the end of 2005. It is attributable to the spreading of banking culture among the general public in Qatar, and to the increase in the volume and value of the financial transactions, which are settled by payment instruments other than currency (like checks), aside from what was mentioned previously about the increase in money demand for speculation in the assets' markets.

Quasi Money

Quasi money (QM) continued its record of several years of growth at the tempo observed in domestic liquidity (M_2) and the narrowly defined money supply (M_1), realizing an increase by QR 11.6 billion or 38.5% in 2005 vis-à-vis QR 4.3 billion or 16.7% in 2004, to reach QR 41.9 billion by the end of 2005, vis-à-vis QR 30.3 billion one year earlier.

Table No (2-3)

Items	Million QR			
	2004	2005	Change	
			Value	%
QR Time Deposits	20,620.9	26,059.5	5,438.6	26.4
Relative Importance %	68.1	62.2	46.7	
Foreign Currency Deposits	9,645.7	15,849.2	6,203.5	64.3
Relative Importance %	31.9	37.8	53.3	
Quasi Money	30,266.6	41,908.7	11,642.1	38.5

Investigation of the developments that occurred in 2005 reveals that all the components of (QM) have contributed to its strong growth in 2005, although with varying rates of growth.

The first component of QM is QR time deposits, which grew strongly by QR 5.4 billion or 26.4%; contributing about 46.7% of the total increase in QM in 2005; this

**Figure No (2-2):
The Money Supply**



caused its relative share in the composition of QM to shrink from 68.1% in 2004 to 62.2% in 2005.

The second item of QM is foreign currency deposits, the accelerated growth of which reached QR 6.2 billion, or 64.3%; thus, contributing the remaining 53.3% of the total increase in QM during 2005.

The Factors Affecting Domestic Liquidity

Analysis of the factors affecting domestic liquidity defined as (M_2) reveals that the trends in these factors namely, net foreign assets, domestic credit and government deposits, and other items net, did not change in 2005 from those trends prevailing in the past few years.

Table No (2-4)

Changes in the Factors Affecting Domestic Liquidity

Items	2004	2005	Change	
			Value	%
Net Foreign Assets (NFA)	5,993.2	16,008.2	10,015.0	167.1
Relative Importance (%)	78.4	82.5	85.1	
Domestic Credit	4,947.8	19,072.5	14,124.7	285.5
Relative Importance (%)	64.7	98.3	120.1	
Gov't Deposits (increase -)	-551.6	-5,326.1	-4,774.5	865.6
Relative Importance %	-7.2	-27.4	-40.6	
Other Items Net (increase -)	-2,747.4	-10,348.7	-7,601.3	276.7
Relative Importance (%)	-36.0	-53.3	-64.6	
Change in Domestic Liquidity	7,642.0	19,405.9	11,763.9	153.9

The domestic credit played its usual expansionary role, but it was stronger in 2005 than the previous year; injecting about QR 19.1 billion in 2005, which accounted for most of the increase in domestic liquidity, vis-à-vis QR 4.9 billion in 2004. However, each of government deposits and "other items net" played contractionary role and together neutralized the expansionary effect of net foreign assets (NFA); namely, government deposits absorbed QR 5.3 billion whereas "other items net" absorbed QR

10.6 billion. The total sum of what both items had absorbed was approximately equal to what net foreign assets (NFA) had injected, where the latter has played its usual expansionary influence on domestic liquidity by QR 16 billion in 2005 vis-à-vis QR 6 billion in the previous year.

Table No (2-5) sheds some more light on the developments of domestic liquidity, for more details and clarity.

Table No (2-5)

The Factors Affecting Domestic Liquidity

Million QR

Items	2004	2005	Change	
			Value	%
Government Expenditures (Net)	31,068.0	43,698.0	12,630.0	40.7
Domestic Banking Transactions	3,662.3	8,543.1	4,880.8	133.3
Domestic Credit to Private Sector	6,409.8	18,891.8		
Other Items (Net)	-2,747.5	-10,348.7		
Private Sector Transactions with the Rest of the World (Net)	-27,088.3	-32,835.2	-5,746.9	21.2
Change in Domestic Liquidity	7,642.0	19,405.9	11,763.9	153.9

The data in Table No (2-5) contains detailed information about inflows and outflows of funds. On the one hand, the inflows of funds come from two sources, namely, government expenditures as the basic and usual source of domestic liquidity and the net of domestic banking transactions as the secondary source. On the other hand, the flows of funds that leak out of the economy through private sector transactions with the outside world, whether for financing imports or satisfying investment needs. It is obvious that the domestic liquidity injected into the domestic economy in 2005 from both sources (government spending and net domestic banking transactions) rose significantly above their level in 2004 by QR 11.8 billion, or 153.9%.

The analysis indicates that the domestic banking transactions played an expansionary role estimated by QR 8.5 billion. It was the outcome of increased domestic credit extended to private sector by QR 18.9 billion, and decreased "other items net" by QR 10.4 billion. Finally, the net government expenditures played its expansionary role in 2005 through increasing by QR 12.6 billion, or 40.7%.

As for the channel through which domestic liquidity leaks out of the economy, i.e., the level of private sector transactions with the rest of the world, it increased in 2005 by QR 5.7 billion, or 21.2%, above its level in 2004, reaching QR 32.8 billion by the end of 2005.

Table No (2-6)

Factors Affecting the Money Supply and its Main Components

Million QR

Items	2002	2003	2004	2005
Currency in Circulation	1,921.3	2,147.5	2,594.0	2,865.6
Demand Deposits	4,367.7	9,130.2	12,004.4	19,496.6
Money Supply (M₁)	6,289.0	11,277.7	14,598.4	22,362.2
Time Deposits	19,002.1	17,958.0	20,620.9	26,059.5
Foreign Currency Deposits	6,855.9	7,987.3	9,645.7	15,849.2
Quasi Money (M₂ – M₁)	25,858.0	25,945.3	30,266.6	41,908.7
Money Supply (M₂)	32,147.0	37,223.0	44,865.0	64,270.9
Changes in :				
Currency in Circulation	180.8	226.2	446.5	271.6
Demand Deposits	889.2	4,762.5	2,874.2	7,492.2
Money Supply (M ₁)	1,070.0	4,988.7	3,320.7	7,763.8
Time Deposits	612.3	-1,044.1	2,662.9	5,438.6
Foreign Currency Deposits	1,710.3	1,131.4	1,658.4	6,203.5
Money Supply (M ₂)	3,392.6	5,076.0	7,642.0	19,405.9
Changes in factors affecting (M₂):				
Net Foreign Assets (NFA)	3,919.4	7,801.6	5,993.2	16,008.2
Domestic Credit	1,956.9	7,378.6	4,947.8	19,072.5
Government Deposits (increase -)	-40.0	-2,065.6	-551.6	-5,326.1
Other Items (increase -)	-2,443.7	-8,038.6	-2,747.4	-10,348.7

Table No (2-7)

Monetary Survey of the Banking System

Million QR

Items	2002	2003	2004	2005
Net Foreign Assets (NFA):	18,017.3	25,818.8	31,812.1	47,820.3
Foreign Assets:	20,408.2	29,933.5	39,989.1	58,290.2
QCB	5,473.5	10,468.6	12,232.7	16,642.7
Commercial Banks	14,934.7	19,464.9	27,756.4	41,647.5
Foreign Liabilities	- 2,390.9	- 4,114.7	- 8,177.0	- 10,469.9
Domestic Credit	35,967.4	43,346.0	48,293.8	67,366.3
Assets = Liabilities	53,984.7	69,164.8	80,105.9	115,186.6
Money Supply (M ₁)	6,289.0	11,277.7	14,598.4	22,362.2
Currency in Circulation	1,921.3	2,147.5	2,594.0	2,865.6
Demand Deposits	4,367.7	9,130.2	12,004.4	19,496.6
Quasi Money (M ₂ – M ₁)	25,858.0	25,945.3	30,266.6	41,908.7
Time Deposits	19,002.1	17,958.0	20,620.9	26,095.5
Foreign Currency Deposits	6,855.9	7,987.3	9,645.7	15,849.2
Money Supply (M ₂)	32,147.0	37,223.0	44,865.0	64,270.9
Government Deposits:	15,544.3	17,609.9	18,161.5	23,487.6
in QR	5,589.7	8,828.6	8,452.9	10,551.5
in FX	9,954.6	8,781.3	9,708.6	12,936.1
Other Items (Net)	6,293.4	14,331.9	17,079.4	27,428.1
Capital	8,943.0	12,949.5	16,241.3	31,235.1
Revaluation Account	299.4	800.7	966.8	739.9
Unclassified Items:	-2,949.0	581.7	-128.7	-4,546.9
QCB	1,342.0	1,732.7	2,458.4	-4,635.0
Commercial Banks	-4,291.0	-1,151.0	-2,587.1	88.1

Qatar Central Bank (QCB)

QCB continued its efforts and strife towards achieving the provision of most appropriate environment for the banking system operating in Qatar in 2005, to enable the banks provide the best level possible of banking services to the public and the economy at large, especially in light of the fact that these services are developing very fast worldwide, and to be able to stand the possible competition of foreign banks operating under the umbrella of Qatar Financial Center, and the banks that might be coming in soon after Qatar opens the door by joining the WTO. QCB also endeavored during 2005 to deepen the pillars of financial stability for the banking system against the various types of risks which it may face during the practice of its activities.

QCB Monetary and Banking Policy Developments

Monetary policy during 2005 showed a sufficient degree of flexibility and adaptation with the current and new events occurring on the international arena especially those related to the trends of interest rate on the international financial market, this took the form of several changes in the QCB rates which are considered the basic indicator for the term structure of domestic interest rates.

In what follows we take up the most important developments witnessed by monetary and banking policy during the year 2005. This will be done through focusing on the most important monetary and prudential measures and actions taken by QCB during 2005, with the view of maintaining the safety and stability of the banking system in addition to achieving the goals of monetary policy.

1. In February 2005, QCB instructed the commercial banks to provide the new Islamic financing services through a unit (or a division) inside the bank or through an independent branch. In the first case, the services of Islamic financing must be limited to assets within its financial position over those producing debts from the beginning of transaction.
2. QCB issued instructions at the beginning of March 2005 to all national banks operating in Qatar to adopt the standard criterion of calculating the ratio of capital adequacy applicable to credit risk and market risk, and to adopt the simple criterion in calculating operational risk according to the Basel II Accord, and the continuation of applying the 10% minimum in calculating the ratio of capital adequacy. QCB also instructed all the banks to calculate the ratio of capital adequacy of Basel II in an experimental basis up to December 31st, 2005 and inform the QCB with them on a regular monthly basis.

3. On the same date, QCB issued instruction exempting the companies affiliated to any bank which are entirely owned by the bank from the ceiling imposed on the banks' subscriptions in the capital of companies which is currently set at 30% of the bank's capital and reserves.
4. In the second half of March 2005, QCB allowed banks to open accounts for foreign companies which do not operate in Qatar, given the necessity of taking into consideration the special instructions of money laundering and fighting terrorism.
5. On the same date, QCB issued instructions regarding the concentration of bank's deposits and credits in other banks and financial institutions, where it was decided to set the ceiling for the subsidiary and associated companies of national banks which practice banking and financial activities at 20% of the capital and reserves, except those companies which issue their financial statements consolidated with those of the bank.
6. At the beginning of June 2005, QCB issued instructions to all banks operating in Qatar concerning the necessity to provide QCB with the banks' policies in applying Basel II Accord and the steps taken towards improving their systems, data and the date expected to complete the application of the said accord.
7. In the middle of July 2005, QCB introduced several changes to the basis of granting real estate financing by all banks such that it should not exceed 150%, 200% of the bank's capital and reserves or 15%, 20% of the bank's total deposits for commercial traditional banks and Islamic banks, respectively. In the middle of the following month, QCB decided that the finance of every project must not exceed 65% of the requested financing, given that the client's contribution in the project must be used before starting to use the bank's credit.
8. In the middle of August 2005, QCB decided to set the end of November 2005 as the final deadline for the application of the new system which uses the smart card and to adapt the banks' systems with the criterion EMV.
9. In the middle of September 2005, QCB sent all banks operating in Qatar a circular regarding the bases and criteria for credit accounts classification and determining the provisions taken on them for consultation and consideration.
10. In the second half of September 2005, QCB notified all banks operating in Qatar that the decision has been made to start the experimental automated implementation of the Basel II system during the first half of October 2005, using the data of September 2005.

11. In the second half of November 2005, QCB issued instructions to all banks operating in Qatar concerning the rules for classifying credit and setting the provisions to be taken on them.
12. In the middle of December 2005, QCB consulted all banks operating in Qatar on the possibility of making adjustments to the basis used to calculate the liquidity adequacy ratio and the ratio of credit to deposits.
13. At the end of December 2005, QCB issued a circular containing instruction to all banks operating in Qatar regarding the necessity of modifying the classification and valuation of their financial investments in light of the new adjustments that took place in the international accounting standard (IAS No. 39).

QCB Balance Sheet

Available data indicate that the accelerated growth of QCB total assets (liabilities) during the past few years, has continued in 2005 as it increased by QR 4.4 billion, or 34.1%, reaching about QR 17.3 billion by the end of 2005 vis-à-vis QR 12.9 billion by the end of 2004.

On the liabilities side, the growth in total liabilities resulted from growth in all of the components, except the revaluation account, which shrank by QR 226.9 million, or 23.5%, reflecting a decline in the value of some foreign securities owned by QCB due to rising international interest rates – especially on the US Dollar which accounts for most of QCB foreign assets. The balance of domestic banks' accounts held at QCB constituted the second major source of liabilities increase, as it increased by QR 1.8 billion, or 63.2%, to reach a total of QR 4.7 billion by the end of 2005 vis-à-vis QR 2.9 billion by the end of 2004. The increase in capital and reserves represented the first source of growth on the liabilities side in 2005; which increased by QR 2.2 billion or 39.5% to reach QR 7.7 billion by the end of 2005, vis-à-vis QR 5.5 billion by the end of 2004. The remaining items on the liabilities side witnessed a smaller growth in absolute value, most important of which was currency issued, which increased by QR 408 million or 13.1% by the end of 2005, reaching a balance of QR 3.5 billion vis-à-vis QR 3.1 billion by the end of 2004.

On the assets side, foreign bonds and T-Bills contributed approximately the entire increase in total assets, whereas another item (balances with foreign banks) continued its growth through the decrease that occurred in the remaining assets. Foreign bonds and T-Bills increased by QR 4.4 billion or 44.6% to reach a balance of QR 14.1 billion by the end of 2005 vis-à-vis QR 9.8 billion by the end of 2004; while balances held with foreign banks increased by QR 275 million, or 14.5%, reaching a balance of QR 2.2 billion by the end of 2005 vis-à-vis QR 1.9 billion by the end of 2004.

Table No (2-8)

Financial Accounts of Qatar Central Bank

Million QR

Items	2004	2005	Change	
			Value	%
Balances with Foreign Banks	1,894.1	2,169.1	275.0	14.5
Foreign Bonds and T-Bills	9,762.5	14,121.2	4,358.7	44.6
Qatar's IMF Reserve Position	372.8	180.3	-192.5	-51.6
Holdings of SDRs Deposits	136.8	136.1	-0.7	-0.5
Gold	66.5	36.0	-30.5	-45.9
Balances with Local Banks	366.7	357.9	-8.8	-2.4
Unclassified Assets	267.7	253.4	-14.3	-5.3
Assets = Liabilities	12,867.1	17,254.0	4,386.9	34.1
Currency Issued	3,123.2	3,531.2	408.0	13.1
Due to the Government of Qatar	168.6	262.1	93.5	55.5
Capital and Reserves	5,508.2	7,682.0	2,173.8	39.5
Revaluation Account	966.8	739.9	-226.9	-23.5
Required Reserves	1,616.6	2,224.5	607.9	37.6
Deposits of Domestic Banks	1,279.4	2,502.5	1,223.1	95.6
Unclassified Liabilities	204.3	311.8	107.5	52.6

The indicators of foreign assets' adequacy held by QCB reveal a strong development in QCB foreign assets; realizing a growth during 2005 that amounted to QR 4.4 billion or 36.1% reaching a balance of QR 16.6 billion by the end of 2005, vis-à-vis QR 12.2 billion by the end of 2004. Thus, the coverage ratio of currency issued (stated by QCB Statute to be no less than 100%) jumped to 471.4% by the end of 2005 vis-à-vis 391.7% by the end of 2004, an increase by 79.6 percentage points or 20.3%. It is worth mentioning that the QCB foreign assets coverage ratio of the monetary base (which includes in addition to currency issued the balances of banks' accounts at QCB) has reached 201.5% by the end of 2005, decreasing slightly by 1.7 percentage points from the end of 2004.

Table No (2-9)

Indicators of QCB's Foreign Assets Sufficiency

Million QR

Items	2002	2003	2004	2005
Foreign Assets	5,473.5	10,468.7	12,232.7	16,642.7
Currency Issued	2,266.6	2,600.2	3,123.2	3,531.2
Monetary Base	3,995.5	4,589.9	6,019.2	8,258.2
Percentage Asset Coverage to:				
Currency Issued (%)	241.5	402.6	391.7	471.3
Monetary Base (%)	137.0	228.1	203.2	201.5

Table No (2-10)

Financial Statement of Qatar Central Bank (2002–2005)

Million QR

Items	2002	2003	2004	2005
Balances held with Foreign Banks	678.2	1,610.0	1,894.1	2,169.1
Foreign Bonds and T-Bills	4,342.0	8,351.4	9,762.5	14,121.2
Qatar's Share in the IMF	326.4	356.7	372.8	180.3
Special Drawing Rights Deposits	102.6	121.7	136.8	136.1
Gold	24.3	28.9	66.5	36.0
Balances held with Local Banks	28.0	96.6	366.7	357.9
Claims against the Government	135.1	16.0	0.0	0.0
Unclassified Assets	367.5	338.0	267.7	253.4
Assets = Liabilities	6,004.1	10,919.3	12,867.1	17,254.0
Currency Issued	2,266.6	2,600.2	3,123.2	3,531.2
Due to the Government of Qatar	0.0	0.0	138.6	262.1
Capital and Reserves	1,432.3	5,324.6	5,508.2	7,682.0
Revaluation Account	299.4	800.7	966.8	739.9
Required Reserves	1,242.8	1,443.8	1,616.6	2,224.5
Deposits of Domestic Banks at QCB	486.8	545.9	1,279.4	2,502.5
Unclassified Liabilities	276.9	204.1	204.3	311.8

Interest Rates

QCB policy towards interest rates was direct control of interest rates on deposits and credit until the middle of 1995. By mid of August 1995, QCB adopted a new policy according to which interest rates were gradually floated. At the beginning, QCB fully floated the interest rates charged on credit; then in the middle of April 1998, QCB floated interest rates paid on time deposits of maturities longer than 15 months; in January 1999, QCB floated the interest rates paid on time deposits of maturities longer than 12 months; finally, at the beginning of 2000, QCB fully floated all interest rates paid on deposits.

Due to the fact that QCB uses reserve requirements basically as a precautionary measure, and due to the fact that other monetary instruments are inactive (e.g. Repo transactions) or rarely used (e.g. outright sale and purchase of the U.S dollar), interest rates remain the most effective instrument among all instruments of monetary policy available to QCB.

The general framework of QCB interest rates consists of a two-sided monetary mechanism called QMR, in addition to the traditional Repo facility. The QMR contains multi-maturity lending and deposit standing facilities.

The general interest rate framework at QCB consists of three official interest rates, namely, QCB overnight lending rate (QCBLR), QCB overnight deposit rate (QCBDR), and QCB Repo Rate (QCBRR). The Repo rate is currently limited to two-weeks and one-month maturities.

The overnight QCBLR is considered as the main rate that is used by QCB for signaling to the money market and for transparent adjustments of the monetary policy of QCB. Lowering it indicates an expansionary, while raising it indicates a contractionary, policy.

QCB continued raising its official interest rates in a manner consistent with the official interest rate targeted by the U.S Federal Reserve System during 2005; where QCB gradually raised the QCB lending rate to reach 4.50% by the end of December 2005. Similarly, QCB raised its QCB deposit rate gradually to reach 4.40% by the end of December 2005. QCB was also concerned about the necessity of having consistency between the QCB Repo rate and the interest rates on the US Dollar and other major foreign currencies. Thus, QCB gradually raised QCBRR to reach 5.10% by the end of December 2005. Table No (2-11) presents the official interest rates targeted by the US Federal Reserve and QCB interest rates.

Table No (2-11)

The US-Targeted Federal Funds Rate and the QCB Policy Interest Rates

(%)

Period (End-of-Month)	The Federal Funds Rate Targeted by the US Federal Reserve	QCBLR	QCBDR	QCBRR (Repo Rate)
Jan. 2005	2.25	2.60	2.50	3.15
February	2.50	2.80	2.75	3.40
March	2.75	3.05	3.00	3.65
April	2.75	3.05	3.00	3.65
May	3.00	3.30	3.25	3.90
June	3.25	3.30	3.25	3.90
July	3.25	3.55	3.50	4.15
August	3.50	3.80	3.75	4.40
September	3.75	4.05	4.00	4.65
October	3.75	4.20	4.00	4.85
November	4.00	4.25	4.15	4.85
December	4.25	4.50	4.40	5.10

QMR Transactions

The QMR transactions reflected the reactions of commercial banks towards the changes that took place in QCB interest rate policy during 2005. Table No (2-12) presents monthly cumulative values of QMR transactions (deposits, lending and their net balance) and their daily averages during 2005.

Table No (2-12)

Cumulative and Daily Averages of QMR Transactions

Million QR

Period (End-of-Month)	QMR Deposits		QMR Credit		QMR Balance (net)	
	Cumulative	Daily Average	Cumulative	Daily Average	Cumulative	Daily Average
Jan. 2005	9,760.5	314.9	380.0	12.3	-9,380.5	-302.6
February	17,853.0	637.6	567.5	20.3	-17,285.5	-617.3
March	23,924.5	771.8	435.0	14.0	-23,489.5	-757.7
April	21,653.0	721.8	40.0	1.3	-21,613.0	-720.4
May	22,935.0	739.8	156.5	5.0	-22,778.5	-734.8
June	30,047.5	1,001.6	318.0	10.6	-29,729.5	-991.0
July	26,819.0	865.1	26.0	0.8	-26,793.0	-864.3
August	33,306.0	1,074.4	00.0	-	-33,306.0	-1,074.4
September	30,164.0	1,005.5	56.3	1.9	-30,107.7	-1,003.6
October	27,577.5	889.6	132.0	4.3	-27,445.5	-885.3
November	26,025.0	867.5	00.0	-	-26,025.0	-867.5
December	28,635.5	923.7	232.0	7.5	-28,403.5	-916.2
Total	298,700.5	818.4	2,343.3	6.4	-296,357.2	-811.9

Commercial Banks

Banks' Aggregated Balance Sheet

The aggregated balance sheet of all commercial banks operating in Qatar, (total assets) reached QR 129,856 million by the end of 2005, reflecting an increase by QR 38,182 million, or 41.6%, in 2005, vis-à-vis an increase by QR 15,909 million, or 21.0%, by the end of 2004. This increase was a result of the high rate of growth achieved by these banks over the last five years, especially in the field of financial intermediation, in tandem with the pace of the fast growth rates realized by the Qatari economy during this period. The following is a brief description of the most important developments on the aggregate assets side.

Assets

The increase in total assets during 2005 stemmed from increases in each of the following assets' components; credit facilities increased by QR 20,223 million, or 40.9%; due balances from other banks and financial institutions increased by QR 11,316 million, or 54.8%, (90 per cent caused by increase in balances held at banks and financial institutions abroad); bank's financial investments in securities increased by QR 2,675 million, or 19.2%; and long-term investment increased by QR 1,718 million, or 81.5%.

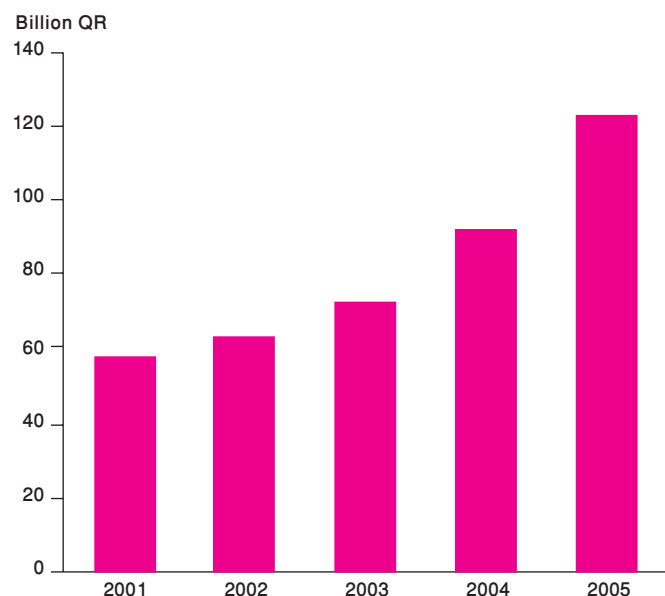
Table No (2-13)

Aggregated Balance Sheet of the Banks Operating in Qatar

Items							Million QR	
	2001	2002	2003	2004	2005	Change 2005-04		
						Value	%	
Cash and Balances with QCB	1,732	2,115	2,492	3,462	5,264	1,802	52.1	
Collectable Cheques	72	78	179	124	159	35	28.2	
Financial Assets Portfolio	8,888	9,901	11,480	13,957	16,632	2,675	19.2	
Due from Banks & Financial Institutions	9,726	12,170	15,132	20,640	31,956	11,316	54.8	
Total Credit Facilities	35,466	36,175	43,730	49,411	69,634	20,223	40.9	
Inside Qatar	33,981	35,928	43,289	48,222	67,267	19,045	39.5	
Abroad	1,485	247	441	1,189	2,368	1,179	99.2	
Long-Term Investments	-	650	1,065	2,107	3,825	1,718	81.5	
Other Assets	1,208	1,267	1,686	1,973	2,386	413	20.9	
Total Assets = Total Liabilities	57,092	62,356	75,764	91,674	129,856	38,182	41.6	
Due to Qatar Central Bank	79	22	98	339	423	84	24.8	
Due to Banks and Financial Institutions	2,633	3,062	5,538	9,339	12,177	2,838	30.4	
Customers' Deposits	42,518	45,770	52,964	60,799	85,400	24,601	40.5	
Provisions	3,016	3,688	3,916	3,578	3,102	-476	-13.3	
Other Liabilities	2,384	2,691	4,558	4,731	10,503	5,772	122.0	
Shareholders' Equity	6,463	7,123	8,690	12,887	18,251	5,364	41.6	
Memoranda Accounts	24,883	23,638	38,845	53,030	66,065	13,036	24.6	

Figure (2-3):

Development of Banks' Aggregated Assets



1. Domestic Banks' Credit

Domestic credit facilities recorded an increase in 2005 by QR 19,045 million, or 39.5%, versus an increase by QR 4,933 million, or 11.4%, in 2004. Total domestic credit recorded a new level of QR 67,267 million, by the end of 2005, representing about 51.8% of total banks' assets. The increase in domestic credit during 2005 is reflective of the expanding role played by Qatar's private sector, especially, in real-estate and infrastructural projects development.

The major developments of banks' credit extended in 2005 are as follows:

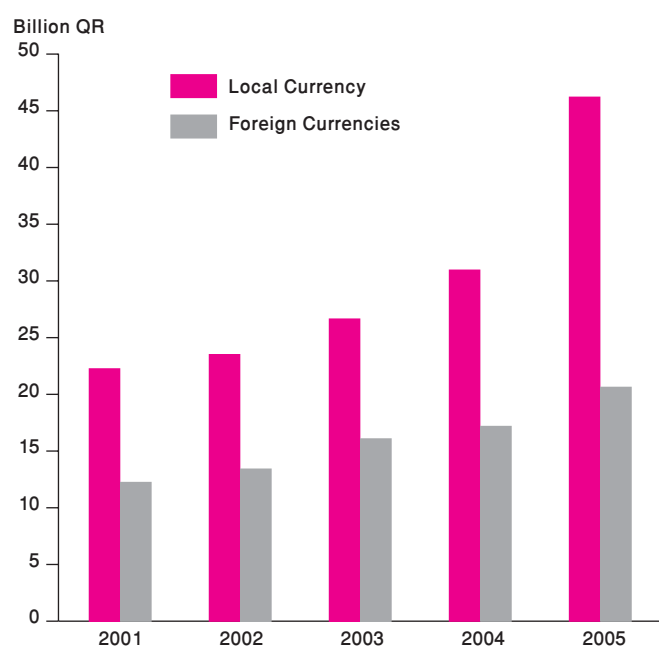
A: Currency Classification of Bank's Domestic Credit

Total domestic credits extended in QR by all banks operating in Qatar reached QR 46,709 million, representing 69.4% of the total extended credit in both QR and foreign currencies during 2005; compared with QR 30,938 million by the end of 2004 and representing 64.2% of the total domestic credit extended in 2004.

On the other hand, Table No. (2-14), which presents the currency classification of domestic credit facilities extended by all banks in 2005, reveals that the realized

Figure (2-4):

Currency Classification of Domestic Bank Credit



increase in national-currency-denominated domestic credit, which amounted to QR 15,771 million, or 51.0%, in 2005, is much larger than (almost fourfold) the increase realized in 2004, which amounted to QR 3,880 million, or 14.3%. Meanwhile, the foreign-currency-denominated domestic credit also recorded a less sharp increase of QR 3,274 million, or 18.9 %, in 2005, versus an increase of QR 1,053 million, or 6.5%, in 2004.

However, the different growth rates in the two credit components led to an increase in the ratio of QR-credit to total domestic credits, from 64.2% (QR 30,938 million) by the end of 2004,

to 69.4% (QR 46,709 million) end-2005. And the ratio of foreign-currency-denominated credit to total domestic credits declined from 35.8% end-2004 to 30.6% end-2005. The decline in the ratio came as a result of faster growth in the national-currency component than the growth in the foreign-currency component of these credits, and not due to a decline in their value.

Table No (2-14)

Currency Classification of Domestic Bank Credit

Million QR

Items	2001	2002	2003	2004	2005	Change 2005-04	
						Value	%
Domestic Credit in National Currency	22,368	22,995	27,058	30,938	46,709	15,771	51.0
Domestic Credit in Foreign Currency	11,613	12,933	16,231	17,284	20,558	3,274	18.9
Total Domestic Credits	33,981	35,928	43,289	48,222	67,267	19,045	39.5
Domestic Credits / Total Assets	59.5%	57.6%	57.1%	52.6%	51.8%	-	-

B: Sectoral Distribution of Domestic Bank Credit

The sectoral distribution of banks' domestic credit extended in 2005 revealed that the private sector acquired more than 99.1% of the increase in domestic credit extended. Hence, the share of the private sector in bank's outstanding credit increased by QR 18,864 million, or 63.4% in 2005, versus an increase of QR 6,395 million, or 27.4%, in 2004. The private sector's outstanding credit balance reached QR 48,617 million by the end of 2005; and accounted for 72.3% of the total outstanding credit balances.

Most of the increase in private sector credit was distributed as follows:

- Consumption loans granted to the household sector increased by QR 10,646 million, or 75.6%, reaching QR 24,731 million by the end of 2005. The relative share of this category of loans at the end of 2005 was 36.8% of total credit facilities. This relative share revealed that banks continued to target the household sector as their main source of demand for bank loans. In general, financing stock market speculative activities and subscriptions in Initial Public Offering (IPO's) activities during 2005 accounted for a good part of the demand for this type of banking system credit.
- Loans extended to the "real-estate and construction" sector also increased by QR 3,829 million, or 67.0%, reaching QR 9,541 million by the end of 2005, versus a smaller numerical increase (but larger proportional increase) of QR 2,385 million, or 71.7%, by the end of 2004. The increases in this category of loans recorded in 2004 and 2005 are clearly a mere manifestation of the contemporaneous and unprecedented expansion of building activities in housing, construction projects and infrastructure sector in Qatar.

- Loans extended to the "industrial sector" edged up sharply by QR 1,332 million, or 134.7%, in 2005, versus QR 295 million, or 42.6%, in 2004. This increase can be attributed to bank's expansion of lending activities in financing large-scale investments in liquefied gas and petrochemical projects.
- Credit facilities extended to "general trade sector" increased by QR 2,067 million, or 33.8%, in 2005, versus QR 584 million, or 10.6%, in 2004. Thus, the credit facilities extended to this sector represented 12.2% of the total credit facilities.
- Credit facilities extended to the "public sector" reversed direction from last year and increased by a small amount of QR 181 million, or 1.0%, in 2005, whereas it decreased by QR 1,461 million, or 7.3 %, in 2004.

The increasing credit facilities extended to public sector in 2005 came as a result of the following interactions:

- The decline in credit facilities extended to the Government by QR 1,432 million, or 10.3%, in 2005, versus larger decrease in 2004 by QR 2,479 million, or 15.2%. Such a decrease in Government loans could be attributed to the rise in the public budget surplus and the decrease in credit facilities extended to government institutions by QR 573 million, or 24.4%, reaching QR 1,776 million by the end of 2005.
- The increase in credit facilities extended to semi-government institutions by QR 2,186 million, or 96.3%, reaching QR 4,456 million by the end of 2005. These credit facilities accounted for a relative share of approximately 23.9% of total credits extended to the "public sector".

Figure (2-5):

Sectoral Distribution of Domestic Bank Credit

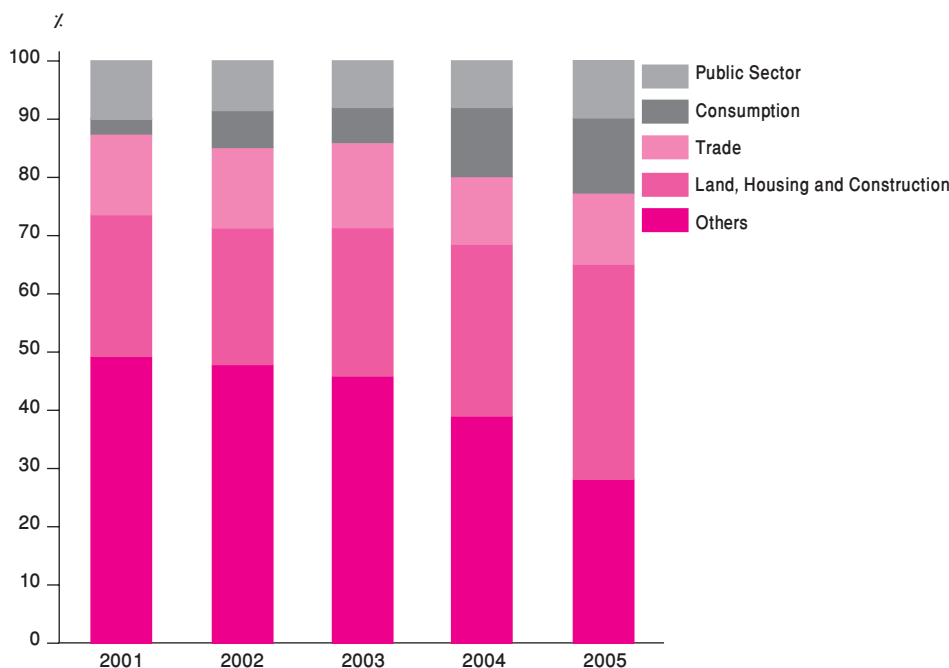


Table No (2-15)

The Sectoral Distribution of Domestic Bank Credit (2001-2005)

Million QR

Items	2001	2002	2003	2004	2005	Change 2005-04	
						Value	%
Public Sector	16,530	16,832	19,931	18,470	18,651	181	1.0
Government	15,096	13,930	16,330	13,851	12,419	-1,432	-10.3
Government Institutions	1,198	1,937	2,122	2,349	1,776	-573	-24.4
Semi-Government Institutions	236	965	1,479	2,270	4,456	2,186	96.3
Private Sector	17,451	19,097	23,358	29,752	48,617	18,864	63.4
General Trade	4,047	4,722	5,532	6,116	8,184	2,068	33.8
Industry	577	898	693	988	2,319	1,331	134.7
Construction	718	1452	1434	1,658	3,358	1,700	102.5
Real Estate	415	1181	1,894	4,054	6,183	2,129	52.5
Consumption	8,882	9,075	11,503	14,085	24,731	10,646	75.6
Services	1071	1,389	1,865	2,384	2,942	558	23.4
Others	1,741	380	437	468	900	432	92.3
Total Domestic Credit Facilities	33,981	35,929	43,289	48,222	67,268	19,045	39.5

2. Banks' Aggregate Portfolio of Financial Investments

Bank's aggregate portfolio of financial investments rose by QR 2,675 million, or 19.2%, in 2005, reaching QR 16,632 million, versus a smaller increase (in value only) by QR 2,477 million, or 21.6%, in 2004. However, the ratio of financial-investment portfolio to commercial banks' total assets fell from a stable level of 15.2% by the end of 2003 and by the end of 2004 to 12.8% by the end of 2005, indicating a faster increase in total assets than the increase in the aggregate financial-investment portfolio. The increase in the aggregate financial-investment portfolio in 2005 could be decomposed into the following sources:

1. Increase in domestic financial securities by QR 1,753 million, or 20.3%, reaching QR 10,376 million end-2005. The relative importance of banks' investment in domestic financial securities was 62.4% of banks' total financial investments end-2005. The increase resulted from banks changing their investment portfolios in favor of the "domestic shares" component, increasing it by QR 2,167 million, or 61.5%, and decreasing domestic government securities component by QR 414 million, or 8.1% due to the redemption of maturing securities in 2005.
2. Increase in foreign securities by QR 921 million, or 17.3%, reaching QR 6,255 million end-2005. Foreign financial assets represent approximately 37.6% of the banks' total financial investments. The most notable sources of the increase in 2005 were the foreign "shares" item which increased by QR 143 million, or 317.8% in 2005, versus

25.0% in 2004; the foreign "other bonds" item, which increased by QR 363 million, or 27.9% in 2005 versus a decline by (-79.5%) in 2004; and finally the foreign "government securities", which increased by QR 355 million, or 9.0% in 2005, versus an increase by 14.1% in 2004.

Table No (2-16)

Banks' Consolidated Financial Investments Portfolio

Million QR

Items	2002	2003	2004	2005	Change 2005-04	
					Value	%
Domestic Securities:						
Government Securities	6,452	5,066	5,117	4,703	- 414	- 8.1
Shares	772	1,822	3,506	5,673	2,167	61.8
Total Domestic Securities	7,224	6,888	8,623	10,376	1,753	20.3
Foreign Securities:						
Government Securities	1,800	3,461	3,950	4,305	355	9.0
Other Bonds	656	905	1,300	1,663	363	27.9
Shares	51	36	45	188	143	317.8
Others	170	190	39	99	60	153.8
Total Foreign Securities	2,677	4,592	5,334	6,255	921	17.3
Total Portfolio of Financial Assets	9,901	11,480	13,957	16,631	2,675	19.2
Ratio of (Financial Assets Portfolio/ Total Assets)	15.9%	15.2%	15.2%	12.8%	-	-

3. Cash Assets

The aggregated banks' cash assets increased by QR 1,802 million, or 52.1%, in 2005, versus QR 970 million, or 38.9%, in 2004. The banks' cash assets reached QR 5,264 million end-2005. This notable increase in banks' cash assets led to an increase in the ratio of cash assets to total assets from 3.8% in 2004 to 4.1% in 2005.

Increased cash assets are attributed to the following:

1. The increase in Required Reserves held at QCB by QR 646 million, or 40.0%, reflecting the increase in banks' deposit base to which the ratio of required reserve is applied uniformly to all types of deposits, a ratio that has not changed in 2005.
2. The notable increase in QMR deposits held at QCB (the indirect monetary policy instrument to absorb excess reserves) by QR 925 million, or 163.4%, reaching QR 1,491 million at the by the end of 2005, from its end of 2004 level of QR 566 million.
3. The increase in banks' excess reserves by QR 77 million or 11.2%, in 2005, reaching QR 762 million by end-2005.

Table No (2-17)

Cash Assets

Million QR

Items	2001	2002	2003	2004	2005	Change 2005-04	
						Value	%
Cash	361	393	509	594	748	154	25.9
Balances with QCB	1,371	1,723	1,983	2,868	4,516	1,648	57.5
• Required Reserves	1,141	1,242	1,444	1,617	2,263	646	40.0
• QMR Deposits	0	304	193	566	1,491	925	163.4
• Excess Reserves	230	177	346	685	762	77	11.2
Total Cash Assets	1,732	2,116	2,492	3,462	5,264	1,802	52.1
Ratio of (Cash Assets/Total Assets)	3.0%	3.4%	3.3%	3.8%	4.10%	-	-

Liabilities

The aggregated balance sheet of commercial banks in 2005 indicated an increase in total liabilities, which mainly came from rises in customers' deposits by QR 24,601 million; shareholders' equity by QR 5,364 million; and balances due to banks and other financial institutions by QR 2,838 million. The increase in total liabilities was partially offset by the decrease in provisions by QR 476 million, as a result of banks' writing off some of their bad loans in 2005.

The most important developments on the liabilities side are briefly described in the following items:

1. Customer Deposits

Banks' total deposits increased by QR 24,601 million (from QR 60,799 million to QR 85,400 million) or 40.5%, in 2005; versus a much smaller increase of QR 7,835 million, or 14.8% in 2004. However, the ratio of total deposits to total liabilities declined slightly end-2005 (from 66.3% end-2004 to 65.8%), reflecting a faster rate of growth in total liabilities, which was 41.6% in 2005.

A. Classification of Banks' Customer Deposits by Maturity

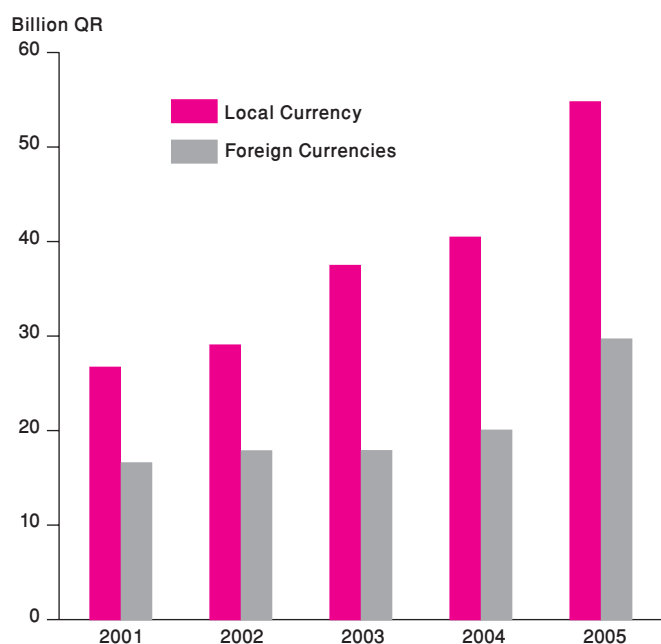
Classification-by-maturity of the deposits in 2005 indicated that demand deposits increased notably by QR 13,328 million, or 68.8%, in 2005, versus a much smaller increase of QR 4,056 million, or 26.5%, in 2004. As a result, the ratio of demand deposits to total deposits rose from 31.9% end-2004 to 38.3% end-2005. The increase stemmed mainly from increases in personal and private-companies' deposits, and could be attributed to the surge in trade and financial transactions of these two sectors. Consequently, the value of checks cleared by QCB Clearing System during 2005 amounted to QR 115,822 million, vis-a-vis QR 65,523 million during 2004.

Similarly, savings and time deposits increased by QR 11,273 million, or 27.2%, reaching QR 52,700 million end-2005, versus an increase of QR 3,779 million, or 10%, end-2004. These deposits represented a relative share of 61.7% of total deposits. The increase in savings and time deposits during 2005 could be attributed to rising interest rates, whether these deposits were denominated in QR or in foreign currencies.

B. Classification of Banks' Customer Deposits by Currency

Figure (2-6) :

Currency Classification of Banks' Customer Deposits



The classification-by-currency of customers' deposits indicated that total deposits denominated in national currency increased by QR 14,994 million, or 36.6%, and total deposits denominated in foreign currencies increased by QR 9,606 million, or 48.4%, in 2005. The foreign-currency deposits component amounted to QR 29,470 million at the end of 2005. The relative share of foreign-currency deposits in total deposits increased from 32.7% in 2004 to 34.5% in 2005. The most notable contributors in the increase in foreign-currencies deposits were the increases in government and semi-government institutions, and private companies' deposits by QR 6,899 million and QR 1,383 million, respectively.

Table No (2-18)

Maturity and Currency Classification of Bank's Customer Deposits

Items	Million QR						Change 2005-04	
	2001	2002	2003	2004	2005	Value	%	
Total Deposits	42,518	45,770	52,964	60,799	85,400	24,601	40.5	
Demand Deposits	4,067	11,234	15,316	19,372	32,700	13,328	68.8	
Time & Saving Deposits	38,452	34,536	37,648	41,427	52,700	11,273	27.2	
Deposits in National Currency (QR)	26,385	28,962	35,974	40,936	55,930	14,994	36.6	
Demand Deposits	3,767	7,588	11,050	15,262	24,826	9,564	62.7	
Time & Saving Deposits	22,619	21,374	24,924	25,674	31,104	5,430	21.1	
Deposits in Foreign Currencies	16,133	16,808	16,990	19,863	29,470	9,606	48.4	
Demand Deposits	300	3,646	4,266	4,110	7,874	3,764	91.6	
Time & Saving Deposits	15,833	13,162	12,724	15,753	21,596	5,842	37.1	

C. Classification of Banks' Customer Deposits by Economic Sectors

The classification-by-economic sectors of banks customers' deposits indicated that the "private sector" contributed 63.8% of the increase in total deposits in 2005. The private-sector deposits increased by QR 15,701 million, or 42.2% in 2005. Private companies' deposits increased notably by QR 10,245 million, or 91.8%, in 2005, versus QR 3,187 million, or 39.9%, in 2004. Personal deposits continued in the position of being the principal component of total customers' deposits, constituting 36.8% of total deposits. Personal deposits increased by QR 5,457 million, or 21%, reaching QR 31,465 million by the end of 2005.

Table No (2-19)

Classification of Banks' Deposits by Economic Sectors

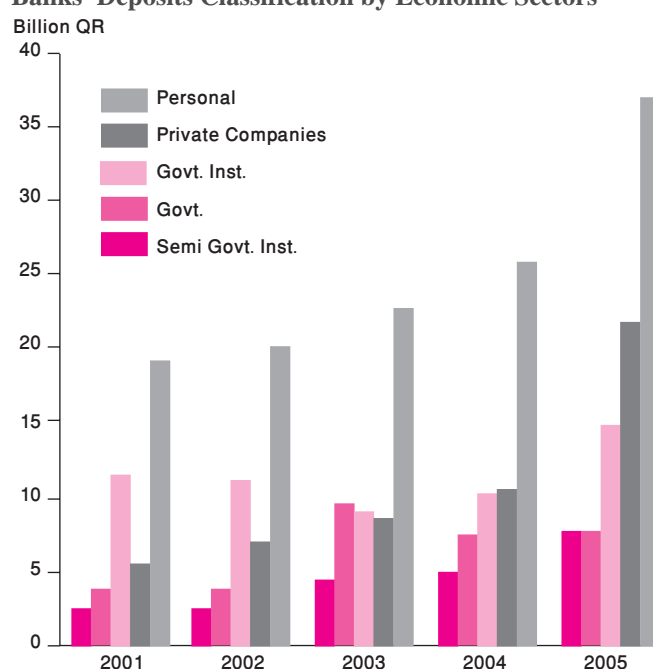
Items						Million QR	
	2001	2002	2003	2004	2005	Change 2005-04	
						Value	%
Public Sector	18,028	18,680	21,975	23,090	31,755	8,666	37.5
Government	3,712	4,070	9,104	7,627	8,595.2	968	12.7
Government Institutions	11,793	11,481	8,506	10,366	14,630.3	4,265	41.1
Semi-governments Institutions	2,524	3,129	4,366	5,097	8,529.8	3,433	67.4
Private Sector	24,490	26,806	30,710	37,174	52,876	15,702	42.2
Private Companies	5,719	6,710	7,979	11,166	21,411	10,245	91.8
Personal	18,771	20,096	22,731	26,008	31,465	5,457	21.0
Non-Resident	-	284	279	535	769	234	43.7
Total Deposits	42,518	45,770	52,964	60,799	85,400	24,601	40.5

Non-resident deposits continued to increase noticeably, however at a slower pace, for the second consecutive year. The non-resident deposits increased by QR 234 million, or 43.7%, in 2005, versus QR 256 million, or 91.8%, in 2004.

On the other hand, "public sector" deposits increased by QR 8,666 million, or 37.5%, in 2005, versus QR 1,115 million, or 5.1%, in 2004. The increase in this category of deposits was concentrated mainly in government and semi-government institutions, their deposit increases in 2005 were QR 4,265 million and QR 3,433 million, respectively. Whereas, Government deposits reversed direction in 2005 and increased by QR 968 million, or 12.7%, versus a decrease by QR 1,477 million, or 16.2%, in 2004.

Figure (2-7):

Banks' Deposits Classification by Economic Sectors



Shareholders' Equity

Shareholders' equity came second in the relative importance among banks' total liabilities components. Banks continued to improve their financial position in attempting to meet the criteria of Basle II Accord, by increasing their shareholders' equities. As a result, they recorded an increase by QR 5,366 million, or 41.6%, reaching QR 18,251 million by the end of 2005; and representing a relative share of 14.1% of banks' total liabilities. The increase in shareholders' equity was due to:

Table No (2-20)

Banks' Shareholders Equity

Items	Million QR						
	2001	2002	2003	2004	2005	Change 2005-04	
						Value	%
Paid-up Capital	2,110	2,150	2,367	3,044	4,143.8	1,100	36.1
Legal Reserves	1,518	1,563	1,972	4,001	6,430.7	2,429	60.7
Other Reserves	2,410	2,824	3,599	4,861	6,451.1	1,590	32.7
Retained Profits	425	586	752	980	1,226.9	247	25.2
Total Shareholders' Equity	6,463	7,122	8,690	12,887	18,252.5	5,366	41.6
Shareholders' Equity / Total Liabilities	11.3%	11.4%	11.5%	14.1%	14.1%	-	-

- Banks increased their capital by QR 1,100 million, or 36.1%, in 2005, versus QR 677 million, or 28.6%, in 2004.
- The increase in banks' legal reserves by QR 2,429 million, or 60.7%, accounted for 45.3% of the increase in shareholders' equity.
- Other reserves increased by QR 1,590 million, or 32.7%, most of which were due to banks' re-evaluation of their financial investments, especially after the large increases in the local stock market index.
- As a result of high profit levels in 2005, banks increased their retained profits by QR 247 million, or 25.2%, reaching QR 1,227 million end-2005.

Banks' Net Foreign Assets

Banks' net foreign assets represent the net balances of all items held outside the State of Qatar on both the assets and the liabilities sides. Net foreign assets experienced a large increase of QR 11,681 million, or 59.5%, reaching QR 31,171 million at the end of 2005, versus an increase by QR 4,227 million, or 27.5%, at the end of 2004. Such a large increase in net foreign assets was the outcome of the following interactions:

A. Banks' Foreign Assets

- Local banks increased their deposit balances with foreign banks and other financial institutions abroad by QR 10,243 million, or 53.6%, comprising 73.8% of the total increase in foreign assets in 2005, versus an increase by QR 5,459 million, or 40.0% in 2004.
- Banks expanded their investments abroad (both short and long) by QR 2,440 million, or 33.5%, reaching QR 9,728 million at the end of 2005.
- Banks continued the expansion of their credit facilities abroad in 2005. These credits facilities increased by QR 1,179 million, or 99.2 %, versus QR 747 million, or 169%, in 2004.

B. Bank's Foreign Liabilities

Banks' foreign liabilities increased by QR 2,201 million, or 26.9%. The increase stemmed from an increase in balances due to foreign banks, which increased by QR 1,967 million, or 25.8%, and non-resident deposits by QR 234 million or 43.6%.

Figure (2-8)

Banks' Net Foreign Assets (2001-2005)

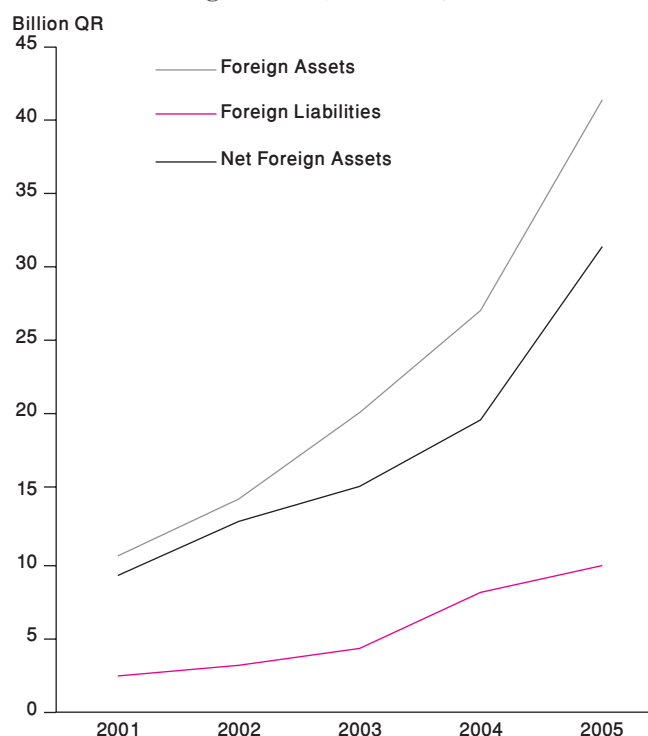


Table No (2-21)

Banks' Net Foreign Assets (2001-2005)

Million QR

Items	2001	2002	2003	2004	2005	Change 2005-04	
						Value	%
Foreign Assets	11,143	14,854	19,366	27,659	41,541	13,882	50.2
Foreign Currencies: Cash-in-Vault	53	47	57	65	82	17	26.2
Due from Banks Abroad	8,303	11,565	13,659	19,117	29,363	10,246	53.6
Financial Investment outside Qatar	1,301	2,995	5,208	7,288	9,728	2,440	33.5
Credit Facilities outside Qatar	1,486	247	442	1,189	2,368	1,179	99.2
Foreign Liabilities	2,465	2,668	4,104	8,169	10,370	2,201	26.9
Non-residents Deposits	329	284	279	535	769	234	43.6
Due to Banks Abroad	2,136	2,384	3,825	7,634	9,601	1,967	25.8
Net Foreign Assets	8,678	12,186	15,262	19,490	31,171	11,681	59.9

Banks' Memoranda Accounts

Banks continued to expand off-balance-sheet activities in 2005 for the third consecutive year. These activities increased by QR 13,037 million, or 24.6% in 2005 reaching QR 66,065 million by the end of the year, versus a larger increase of QR 14,185 million, or 36.5% in 2004. The increase in 2005 could be attributed mainly to the following:

- The Letters of Guarantee (LGs) issued by banks increased noticeably by QR 9,492 million, or 62.7%, constituting about 72.8% of the total increase in the memoranda accounts in 2005, and they also accounted for the largest relative share among all items of memoranda accounts in 2005, and they also ranked first among the items of memoranda accounts with a relative share of 37.3%.
- The Letters of Credit (LCs) issued by banks realized the second largest increase among the memoranda accounts items in 2005; increasing by QR 1,925 million, or 31.1%, reaching QR 8,118 million, versus an increase by QR 1,695 million, or 37.7%, in 2004. The increase in the value of the LCs came as a logical corollary to the vast growth in imports of goods associated with the currently witnessed high growth rates of Qatar's economy.
- The rise in "unutilized extended credits" by QR 1,626 million or 18.1%, reaching about QR 10,611 million, representing 16.1% of the total memoranda accounts.
- Despite the decline in deferred contracts and other derivatives in 2005 by QR 919 million, or 4.4%; they still ranked second (after the letters of guarantee) among the five components of memoranda accounts, with a relative share of 30%, or QR 19,826 million.

Table No (2-22)

Banks' Memoranda Accounts (2001-2005)

Million QR

Items	2001	2002	2003	2004	2005	Change 2005-04	
						Value	%
Letters of Credit (LCs)	2,959	3,775	4,498	6,193	8,118	1,925	31.1
Letters of Guarantee (LGs)	8,086	9,291	10,018	15,150	24,642	9,492	62.7
Deferred Contracts	7,688	3,902	15,264	20,744	19,826	-918	-4.4
Unutilized Extended Credits	3,809	3,733	5,836	8,985	10,611	1,626	18.1
Others	2,341	2,937	3,228	1,957	2,869	912	46.6
Total	24,883	23,638	38,844	53,029	66,066	13,037	24.6

Banks' Performance Indicators*

QCB measures and assesses the soundness of banks' performance, using a set of internationally well known indicators that measure capital adequacy, assets quality, profitability, uses of funds and liquidity. QCB aims at enhancing financial stability and limiting the likelihood of failure in the banking system by measuring banks' performance. The following contains a brief analysis of the developments in the reported indicators.

1. Capital Adequacy Standards

By the implementation of these standards, local banks' ability to maintain sufficient capital, in both forms core and supplementary, could be monitored and their ability to face and absorb any financial shock or loss that might arise in the future.

The follow up of capital adequacy ratios in 2005 indicates the following:

- The ratio of core capital (capital + reserves) to total assets showed a slight decline from 11.7% at the end of 2004, to 11.2% at the end of 2005. Nonetheless, despite this decline in the ratio, it is still well above the minimum set by QCB at 6%.

- The ratio of core capital to total assets and contingent liabilities weighted by their risks showed a decrease from 22.1% at the end of 2004, to 21.7% at the end of 2005. This decline is largely attributable to the banks' expansion of activities, whether at the level of their assets or off-balance-sheet activities, and the growth of these activities at faster rates than the increases that took place in the core capital of the banks.

- The ratio of regulatory capital (core + supplementary) to risk-weighted assets and contingent liabilities reached 24.8% end-2005, vis-à-vis 24.9 % end-2004 (The minimum ratio is set at 10%).

- On the other hand, the ratio of non-performing loans to capital that provides an indicator of the capacity of banks' capital to withstand non-performing loans related losses, such ratio showed some improvement in 2005. It decreased from 3.6% at the end of 2004 to 3.3% at the end of 2005. This improvement was due to two factors. The first was the decrease in non-performing loans of local banks, and the second was the increase in banks' capital and reserves.

2. Assets Quality Standards

This group of standards measures the extent of protection against risks driven from impairment assets. The developments in these standards reflected an improvement in the quality of assets in 2005. The ratio of non-performing loans to total loans decreased from

(*) The data here includes the Qatar Industrial Development Bank.

6.3% at the end of 2004, to 4.3% at the end of 2005. However, the ratios of loans' provisions to total loans and total provisions to total assets decreased from 87.6% and 3.9%, respectively, end-2004 to 84.3% and 2.4%, respectively, at the end of 2005. Such decreases were due to writing off a proportion of bad loans during 2005.

Sectoral Distribution of Loans (Credit Concentration)

The analysis of the sectoral distribution of loans provides information on the distribution of credit facilities extended to economic sectors and measures the vulnerability of the banking system to risks arising from the concentration of credit facilities in specific economic sectors or activities.

Table No. (2-23) indicates that local banks continued to concentrate most (81.4%) of their credit facilities in four main sectors; the Government (18.4%), consumption loans (36.7%), real-estate and construction (14.2%) and general trade (12.1%). The table also shows that the ratios of credit facilities extended to consumption and real-estate and construction to total domestic credit facilities moved up from 29.2% and 11.8%, respectively, by the end of 2004, to 36.7% and 14.2%, respectively, by the end of 2005. Such a trend was accompanied by the economic boom in Qatar during the last few years. However, QCB has adopted several prudential measures to protect the banking system against any economic downturn that may impact the soundness of the banking system. For example, banks were required to use the salaries of the borrowers as collateral for their consumption loans. In addition, QCB requires all traditional banks to apply ceilings (or maximum limits) on bank's total mortgage financing to all customers not to exceed 150% of the bank's shareholders' equity, or 15%, of the bank's total customers' deposits; whichever is smaller, and the average of 200% of shareholders' equity, or 20% of total customers' deposits for Islamic banks.

Table No (2-23)

Relative Distribution of Banks' Credit by Sectors

(%)

Items	2001	2002	2003	2004	2005
Public Sector	48.6	46.8	46.0	38.2	27.7
Government	44.4	38.7	37.7	28.7	18.4
Government Institutions	3.5	5.4	4.9	4.9	2.6
Semi Government Institutions	0.7	2.7	3.4	4.7	6.6
Private Sector	51.4	53.2	54.0	61.8	72.3
Consumption Loans	26.1	25.2	26.5	29.2	36.7
General Trade	11.9	13.1	12.8	12.7	12.1
Services	3.1	3.9	4.3	4.9	4.4
Land, Real Estate and Construction	6.9	7.3	7.7	11.8	14.2
Other Sectors	3.3	3.7	2.7	3.2	4.9

3. Profitability Standards

This set of standards reflects banks' efficiency and aims at enhancing their financial positions and distribution of dividends to their shareholders.

The developments in these standards reflected the highest banks' profitability during 2005, which came as a result of the prosperous Qatari economy during the last five years. The ratios of net profit to average shareholders' equity, and to average assets, recorded a noticeable increase to 28.5% and 4.3%, respectively, end-2005, vis-à-vis 20.8% and 2.8%, respectively, end-2004. Likewise, the ratio of other income to total income and total assets increased to 39.0 % and 3.1%, respectively, in 2005, vis-à-vis 30.6% and 1.8%, respectively, in 2004. The indicators which demonstrated banks' ability to reduce their expenses during 2005, i.e., the ratio of other expenses (rather than interests paid) to total income decreased from 30.5% end-2004, to 22.4% end-2005. And the ratio of total salaries and wages to total expenses decreased from 38.0 % in 2004, to 35.2% in 2005.

4. Liquidity Standards

These standards measure the banks' ability to fulfill their obligations, particularly towards their depositors through holding an appropriate portion of their assets in liquid form.

The developments of liquidity indicators shown in Table (2-24) reflected an improvement in banks' liquidity in 2005. The ratio of cash assets to total assets moved up from 3.7% end-2004 to 4.1% end-2005. Similarly, the ratio of liquid assets to liquid liabilities rose from 54.8% end-2004 to 55.4% end-2005. In addition, banks have maintained the ratios of total loans to total deposits and to total assets at 81.7% and 53.5%, respectively, in 2005.

5. Uses of Funds Standards

This set of standards encompasses several ratios that measure the capability of banks to use their financial resources in generating income. The developments of these ratios showed that banks continued to expand credit facilities to the private sector. The ratio of credit facilities extended to the private sector to total credit facilities increased from 60.3% in 2004 to 69.9% in 2005, and represented 92.1% of the private sector deposits in 2005 compared with 80.2% in 2004.

On the other hand, the ratio of total assets denominated in foreign currencies to total liabilities denominated in foreign currencies continued to decrease, reaching 153.1% at the end of 2005, versus 159.3% at the end of 2004. The decline of this ratio in the last two years came as a result of banks' shift in policy towards expanding their activities in

domestic markets, where yields on domestic activities are higher than yields abroad, given the same degree of risk.

6. General Ratios

These general ratios measure the major items in the banks' balance sheets and their growth rates. These ratios revealed that the witnessed high growth rate of the Qatari economy in 2005 affected the major items of the banks' balance sheet. Deposits and credit facilities grew by 40.5% and 40.9%, respectively, in 2005, versus 14.8% and 13.0%, respectively, in 2004.

Table No (2-24)

Indicators of Banks' Performance

(%)

Items	2001	2002	2003	2004	2005
1. Capital Adequacy					
Regulatory Tier 1 capital / total assets	11.7	10.7	10.0	11.7	11.2
Regulatory Tier 1 capital / Risk weighted assets	26.9	24.4	22.2	22.1	21.7
Regulatory capital / Risk weighted assets	27.7	25.1	25.3	24.9	24.8
Non-performing loans / capital	21.6	17.4	6.8	3.6	3.3
2. Standards of Assets Quality					
Non-performing loans / total loans	10.7	11.1	8.1	6.3	4.3
Loans Provision / Non-performing loans	61.9	70.9	85.4	87.6	84.3
Loans Provision / Total Loans	6.6	7.9	6.9	5.5	3.6
Total Provision / Total Assets	5.3	5.9	5.2	3.9	2.4
3. Profitability Standards					
Net Profit / Average Shareholders' Equity	15.8	18.1	20.8	20.8	28.5
Net Profit / Average Total Assets	1.9	2.1	2.5	2.8	4.3
Net Interest / Average Total Assets	2.0	3.3	3.0	2.7	3.0
Net Interest / Total Income	25.6	53.1	50.4	48.0	37.2
Other Income / Average Total Assets	1.8	1.2	1.7	1.8	3.1
Other Income / Total Income	22.9	20.0	28.9	30.6	39.0
Other Expenses / Total Income	28.5	39.1	38.5	30.5	22.4
Wages and Salaries / Other Expenses	30.6	30.6	31.0	38.0	35.8
4. Liquidity Standards					
Cash Balances with QCB/ Total Assets	3.0	3.4	3.2	3.7	4.0
Liquid Assets / Total Assets	34.0	39.0	38.5	41.6	41.5
Liquid Assets / Liquid Liabilities	44.2	51.1	50.9	54.8	55.4
Financial Assets' Portfolio / Total Assets	15.6	16.0	15.3	15.3	12.9
Total Loans / Customers' Deposits	83.5	79.1	82.7	81.4	81.7
Total Loans / Total Assets	61.9	57.8	57.5	53.8	53.5
5. Uses Standards					
Loans to Private Sector / Private Sector Deposits	77.4	70.7	76.2	80.2	92.1
Loans to Private Sector / Total Loans	53.4	52.9	53.5	60.3	69.9
Domestic Credit/ (Total Deposits+ Shareholders' Equity)	69.1	67.7	70.0	65.3	64.5
Total Assets/Total Liabilities (in Foreign Currencies)	138.6	150.6	168.3	159.3	153.1
6. General Ratios					
Growth Rate of Total Assets	14.1	9.3	21.5	20.9	41.6
Growth Rate of Total Customers' Deposits	17.0	7.6	15.7	14.8	40.5
Growth Rate of Total Credit Facilities	21.9	2.0	20.9	13.0	40.9
Growth Rate of Financial Assets Portfolio	15.8	11.7	16.0	21.5	19.3

Qatar Industrial Development Bank

Qatar Industrial Development Bank (QIDB) is classified by QCB as a specialized credit institution, specialized in providing finance and other assistance towards the development of small and medium-size industrial projects in Qatar, whether through providing loans, participating in the initial capital of these projects, or providing them with the needed technical assistance. QIDB balance sheets for the past five years revealed that it had achieved and played an active role in the development activities in these years. QIDB total assets increased by QR 82.4 million, or 22.8%, during 2005, reaching QR 444.3 million at the end of 2005.

Table No (2-25)

Qatar Industrial Development Bank Balance Sheet

Million QR

Items	2001	2002	2003	2004	2005	Change 2005-04	
						Value	%
Financial Investments Portfolio	79.5	116.6	141.2	170.3	211.7	41.4	24.3
Balances due from Banks and FIs	122.4	114.2	139.1	91.7	80.7	-11.0	-12.0
Credit Facilities	30.1	38.6	57.4	72.1	99.4	27.3	37.9
Other Assets	8.8	20.6	25.8	27.8	52.5	24.7	88.8
Total Assets = Total Liabilities	240.8	290.0	363.5	361.9	444.3	82.4	22.8
Due to Banks and Financial Institutions	2.4	14.3	18.8	16.3	50.9	34.6	212.3
Customers' Deposits	0.3	0.3	0.2	-	-	-	-
Provisions	1.9	4.2	5.8	10.7	13.3	2.6	24.3
Other Liabilities	12.3	9.3	29.5	3.6	13.5	9.9	275.0
Shareholders' Equity	223.9	261.9	309.2	331.3	366.7	35.4	10.7

This increase was allocated on both sides (assets & liabilities) as follows:

1. Assets :

Credit facilities extended by QIDB to industrial-sector projects increased during 2005 by QR 27.3 million, or 37.9%, reaching QR 99.4 million end-2005. Credit facilities also increased in terms of their relative share of QIDB total assets from 19.9% end-2004 to 22.4% end-2005.

Financial investments (bonds and shares) increased by QR 41.4 million, or 24.3%, reaching QR 211.7 million at the end of 2005, and representing about 47.6% of total assets. Following the sharp increase in the domestic financial market (DSM) Index during 2005, QIDB re-evaluated its financial investment portfolio and resulted in making it occupy the largest relative share of the increase witnessed in 2005.

2. Liabilities

QIDB continued to rely on the long-term source of funds (represented by its shareholders equity), to finance its activities. Thus, shareholders' equity, which amounted to QR 366.7 million at the end of 2005, comprised 82.5% of total QIDB liabilities in the balance sheet, recording an increase of QR 35.4 million, or 10.7%, that owed to an increase in reserves (of which approximately 69.3% represents revaluation of fair value reserves as a result of revaluing its financial portfolio assets according to their market value in the stock market).

Table No (2-26)

Qatar Industrial Development Bank Shareholders' Equity						Million QR	
Items	2001	2002	2003	2004	2005	Change 2005-04	
						Value	%
Paid Capital	200	200	200	200	200	0.0	0.0
Legal Reserves	4.8	6.8	9.1	10.5	10.5	0.0	0.0
Other Reserves	11	39	74.8	89.7	125.1	35.4	39.5
Retained Profits	8.1	16.1	25.3	31.1	31.1	0.0	0.0
Total Shareholders' Equity	223.9	261.9	309.2	331.3	366.7	35.4	10.7
Shareholders' Equity / Total Liabilities	93.0%	90.3%	85.1%	91.5%	82.5%	-	-

Exchange Companies

The aggregated balance sheet of exchange companies demonstrated a noticeable expansion of the companies' activities during 2005. Their aggregated balance sheet increased by QR 134.8 million, or 26.6%, during 2005 versus a higher increase of QR 149.7 million, or 42%, during 2004.

Table No (2-27)

The Aggregated Balance Sheet of Exchange Companies						Million QR	
Items	2001	2002	2003	2004	2005	Change 2005-04	
						Value	%
Cash	36.5	41.8	43.1	68.1	74.8	6.7	9.8
Due From Banks	84.9	70.7	77.4	78	278.7	200.7	257.3
Balances with money exchangers & branches	1.8	9.2	9.2	6.2	16	9.8	158.1
Financial investments	53.5	98.6	213.0	324.5	250.4	-74.1	-22.8
Fixed assets	5.7	5.9	5.3	19.7	12.3	-7.4	-37.6
Other assets	7.6	11.5	8.3	9.5	8.6	-0.9	-9.5
Total Assets = Total Liabilities	190	237.7	356.3	506.0	640.8	134.8	26.6
Reserves and Capital	97.4	140.0	262.0	404.2	479.8	75.6	18.7
Due to banks	60.5	60.0	55.0	63.7	89.2	25.5	40.0
Branches & Exchangers accounts	13.5	16.7	17.5	16.9	46.9	30.0	177.5
Other liabilities	18.6	21.0	21.7	21.2	24.9	3.7	17.5

The developments in the aggregated exchange companies' balance sheet as of the end of 2005 could be summed up as follows:

I. Assets

Most of the recorded increase on the asset side during 2005 resulted from balances held with banks, which increased by QR 200.7 million, or 257.3%, reaching QR 278.7 million end-2005, comprising 43.5% of total assets, vis-à-vis 15.4% end-2004. This reflects the high level of liquidity which these companies have had in 2005.

Financial investments recorded a noticeable decrease by QR 74.1 million, or 22.8%, reaching QR 250.4 million at the end of 2005, versus an increase by QR 111.5 million, or 52.3%, during 2004. The largest portion of the decrease in financial investments during 2005 stemmed from selling part of the owned local securities on the secondary market and realizing a noticeable capital gain. This caused the income generated by financial investments, in the profit and loss statements, to rise considerably by 148.0% in 2005.

Liabilities

The shareholders' equity is still the principal source of funds in financing exchange companies activities. This item represented 74.9% of total liabilities or QR 479.8 million end-2005, vis-à-vis 79.9% or QR 404.2 million end-2004; recording an increase by QR 75.6 million, or 18.7%, the rising shareholders' equity came as a result of the following interactions:

- The companies augmenting their capital by QR 14.7 million, or 21.5%,
- Increasing retained profits by QR 47.9 million, or 158.6%, most of which was due to income generated from selling financial securities, and
- Decreasing re-evaluation reserves by QR 49.9 million, or 25.6%, that was mainly caused by selling part of their financial securities on the secondary market. Table No (2-28) presents the major components of the shareholders' equity during the last two years.

Table No (2-28)

Shareholders' Equity of Exchange Companies

Million QR

Items	2004	2005	Change 2005-04	
			Value	%
Capital	68.3	83.0	14.7	21.5
Legal Reserves	81.7	91.5	9.8	12.0
Revaluation Reserves (Fair Value)	194.9	145.0	-49.9	-25.6
Other Reserves	6.3	6.9	0.6	9.5
Retained Profits	30.2	78.1	47.9	158.6
Others	22.8	75.3	52.5	230.3
Total Shareholders' Equity	404.2	479.8	75.8	18.8

Finance Companies

The Finance Company expanded its activities in 2005. The Company's balance sheet reached QR 768.3 million in total assets at the end of 2005, vis-à-vis QR 538.5 million at the end of 2004. That is an increase of QR 229.8 million, or 42.7%, versus a decrease of QR 25.4 million, or 4.5%, in 2004.

Table No (2-29)

The Balance Sheet of the Finance Company

Million QR

Items	2001	2002	2003	2004	2005	Change 2005-04	
						Value	%
Assets:							
Cash and Balances with Banks	12.1	33.9	24.6	83.7	37.9	- 45.8	-54.7
Debtors	193.2	451	493.5	423	652	229.0	54.1
Financial Investments	15.3	0	5.5	0.8	13.6	12.8	1600.0
Other Assets	14.4	14.9	40.3	31	64.8	33.8	109.0
Total Assets = Total Liabilities	235	499.8	563.9	538.5	768.3	229.8	42.7
Liabilities:							
Shareholders' Equity	101.2	111.4	141.2	174	214.7	40.7	23.4
Borrowing from Financial Institutions	115	276.4	369.2	291.9	471.6	179.7	61.6
Other Liabilities	18.8	112	53.5	72.6	82	9.4	12.9

The most important developments in the Finance Company's Balance Sheet could be briefly described as follows:

I. Assets

- The company's basic Islamic financing activities increased by QR 229.0 million, or 54.1%, reaching QR 652 million at the end of 2005, versus a decrease of QR 70.5

million, or 14.3%, in 2004. These activities represented 84.9% of the company's total assets at the end of 2005, versus 74.5% at the end of 2004.

- Cash and balances held with banks decreased by QR 45.8 million, or 54.7%, reaching QR 37.9 million at the end of 2005 and comprising 4.9% of total assets.
- Financial investments recorded a remarkable increase from QR 0.8 million end-2004 to QR 13.6 million end-2005.

2. Liabilities

The Finance Company generally relies on two principal sources of funds in financing its activities:

- Borrowing from financial institutions, which comprised 61.4% of its total liabilities, increased by QR 179.7 million, or 61.6%, by the end of 2005.
- Shareholders' equity is the second source of funds. The Company augmented this item by an amount of QR 40.7 million, or 23.4%, reaching QR 214.7 million by the end of 2005. However, the ratio of shareholders' equity to total liabilities decreased from 32.3 % end-2004 to 27.9% end-2005.

Investment Companies

The aggregated balance sheet of Investment Companies increased markedly during 2005 by QR 251.9 million, or 276.5%, reaching QR 343.0 million at the end of 2005.

Table No (2-30)

The Balance Sheet of the Investment Companies

Items	Million QR						Change 2005-04	
	2001	2002	2003	2004	2005	Value	%	
Cash and Balances with Banks	30.3	43.8	33.8	32.9	117.5	84.6	257.1	
Debtors	3.9	5.6	1.5	3.4	6.2	2.8	82.4	
Financial Investments	16.8	11.6	31.6	49.8	193.5	143.7	288.6	
Other Assets	18.1	10.5	12.8	5	25.8	20.8	416.0	
Total Assets = Total Liabilities	69.1	71.5	79.7	91.1	343	251.9	276.5	
Shareholders' Equity	61.8	65	77.4	88.3	336.9	248.6	281.5	
Short-Term Borrowing	1.2	3.8	0.5	0.4	2.7	2.3	575.0	
Other Liabilities	6.1	2.7	1.8	2.4	3.4	1.0	41.7	

The most important developments in the Investment Companies' aggregated balance sheet are as follows:

1. Assets

- On the asset side, cash-in-vault and balances due from banks increased during 2005 by QR 84.6 million, or 257.1%, reaching QR 117.5 million at the end of 2005, constituting a ratio of 34.3% to total assets. This ratio reflected the high level of liquidity available to these Investment Companies.
- The Investment Companies expanded their activities in the area of financial investments during 2005 by QR 143.7 million, or 288.6%. The increase accounted for 57.0% of total increase on the asset side. Financial investment items totaled QR 193.5 million, representing about 56.4% of total assets at the end of 2005.

2. Liabilities

Investment Companies rely on their shareholders' equity as their main source of funds to finance their activities, and represents about 98.2% of total liabilities. These companies gave support to this item by increasing it noticeably in 2005 by QR 248.6 million, or 281.5%, reaching QR 336.9 million at the end of 2005.

Insurance Companies

The insurance sector is comprised of ten companies currently operating in the State of Qatar, (five of which are nationally-owned companies and the remaining five are branches of foreign companies). They all engage in providing all types of insurance services to individuals and businesses, namely:

- Fire insurance,
- Freight Insurance (land, air and by sea),
- Automobile insurance,
- Insurance against various types of risk.

Nationally owned insurance companies' activity grew fast during the last few years, influenced by the economic boom in Qatar and the increasing number of population and their increasing needs for insurance services, whether life insurance, or property insurance of all types. This reflected positively on the aggregated balance sheet of these companies which grew by QR 3,286.2 million, or 84.5% in 2005, reaching a total of QR 7,176.3 million by the end of 2005.

In the following paragraphs, the most important developments on the assets as well as the liabilities side are explored, as indicated by Table No. (2-31).

I. Assets

Total assets of the five nationally-owned insurance companies reached QR 7,176.3 million end-2005, vis-à-vis QR 3,890.1 million end-2004, marking a noticeable increase of QR 3,286.2 million or 84.5%. The developments in the assets side could be summed up as follows:

- Cash assets, represented by cash and balances held with banks, recorded an increase by QR 415.6 million, or 84.9 %, reaching QR 905.2 million at the end of 2005. As a result, the ratio of cash assets to total assets reached 12.6% end-2005.
- Insurance companies expanded their financial investments' activities in 2005, recording an increase of QR 2,450.8 million, or 100.9%. However, most of this percentage increase (66.5%) resulted from revaluating the portfolio of financial investments at their "fair value". The revaluation added value amounted to QR 1,630.3 million at the end of 2005.
- The insurance companies expanded their insurance activities during 2005, for instance, re-insurance contracts increased by QR 206.6 million, or 50.1%, and other insurance activities rose by QR 73.4 million, or 29.1%.

Table No (2-31)

Aggregated Balance Sheet of National Insurance Companies

Million QR

Items	2004	2005	Change 2005-04	
			Value	%
Assets				
Cash and Balances with Banks	489.6	905.2	415.6	84.9
Financial Investments	2,427.9	4,878.7	2,450.8	100.9
Reinsurance Contracts	412	618.6	206.6	50.1
Insurance and other Receivables	252.2	325.6	73.4	29.1
Real-Estate Investments	187.8	279.3	91.5	48.7
Other Assets	120.6	168.9	48.3	40.0
Total Assets = Total Liabilities	3,890.1	7,176.3	3,286.2	84.5
Liabilities				
Borrowing from Banks	37	25.4	-11.6	-31.4
Insurance Contracts	669.2	949.3	280.1	41.9
Provisions, Insurance and Other Payables	325.1	402.8	77.7	23.9
Shareholders' Equity	2,770.4	5,511.7	2,741.3	98.9
Other Liabilities	88.4	287.1	198.7	224.8

2. Liabilities

- Insurance companies rely on their shareholders' equity as the main source of funds to finance their activities. Shareholders' equity increased by QR 2,741.3 million, or 98.9% during 2005; reaching QR 5,511.7 million and comprising 76.8% of total liabilities at the end of 2005.
- Insurance contracts and other insurance liabilities increased during 2005 by QR 357.8 million, or 38.0%, reaching QR 1,352.1 million and comprising about 18.8% of total liabilities at the end of 2005. Table No (2-32) presents the major components of the shareholders' equity during the last two years.

Table No (2-32)

Shareholders' Equity of National Insurance Companies

Million QR

Items	2004	2005	Change 2005-04	
			Value	%
Capital	428.9	596.4	167.5	39.1
Legal Reserves	140.0	750.4	610.4	436.0
Revaluation Reserves	312.5	312.5	0.0	0.0
Other Reserves	1,473.3	3,103.6	1,630.3	110.7
Retained Profits	415.6	748.8	333.2	80.2
Total Shareholders' Equity	2,770.3	5,511.7	2,741.4	98.9

Doha Securities Market (DSM)

The events of 2005 were exceptional for the Doha Securities Market (DSM). The year witnessed the granting of share ownership and trading rights to foreigners. The permission was subject to a 25% ceiling of the value of these shares traded in any one of these companies. The year also witnessed the listing of two new companies, namely Qatar Gas Transport Ltd.(Nakilat), with a capital of QR 2,800 million; and Dlala Brokerage and Investment Holding Company, with a capital of QR 200 million. The latter started in March 2005 weekly publishing market indicators, including PE and the ROE ratios.

The most important development of the DSM in 2005 was a wave of rising stock prices of all listed companies during the first quarter, which was a hedge move to capture a considerable relative share of the market before the demand from foreign nationals materializes on the 9th of April. This period was characterized by sharp increases hitting the limit up allowed (which is 10% of the previous day closing price) every day. In an attempt to contain the wide fluctuations in stock prices; the DSM Administration had to reset the limits to 5%. However, the market index jumped by 71.5%, (reaching 11,138 points by the end of the first quarter) between the beginning of the year and the end of March 2005.

After a period of declining prices (due to heavy selling to reap profits in April and May); share prices started rising again in June, August and the first half of September. This rise, however, did not cover all shares. The only shares that experienced continuous rises (or jumps) were those companies announcing their seasonal profit results; or those announcing raising their capital through selling shares to existing shareholders at lower-than-market prices. Prices of other companies' shares have declined, either due to seasonal announcements made of limited profitability or due to the fact that their PE ratios have reached unjustifiable levels. As a result of the developments that took place in the second and third quarters of 2005, the market index rose less sharply than the rise witnessed in the first quarter, reaching its peak on the 22nd of September, when it hit the 12,753 points, that is an increase by 14.5% from the level reached at the end of March, or 100% increase over the levels reached at the beginning of the year.

The fourth quarter witnessed both declining share prices and a declining market index, which seemed as a necessary corrective move, just before the approaching season

of profit distribution. But other additional factors started to pressure the prices in a downward direction, starting with the huge subscription to the (September 20th) IPO of the UAE Dana Gas, the subscription to capital increase of the Commercial Bank of Qatar; the announcements about forthcoming IPO subscriptions of two large size banks (one billion USD for the first and half a billion for the second); a third subscription was offered by Barwa Real Estate with a QR 2.0 billion capital; the fourth and last capital subscription was offered by the Gulf Cement Company (GCEM.AD, GCEM.KW) with a capital of QR 800 million. Thus, it appears that this period experienced a net flow of liquidity out of DSM into other fields of investment such as real-estate projects like the Pearl-Qatar Real-Estate Project, the Lucille City, or for investment in the markets of the neighboring countries, some of which have witnessed a strong wave of increase. At the same time, Qatari Riyal short-term interest rates recorded a continuous increase passing over the 4% level by the end of the year. As a result, the DSM market index fell during the fourth quarter by 13.3%, reaching 11053 points, still higher than its level at the beginning of the year by 70.21%.

The volume traded on the DSM increased by 345.3% in 2005, reaching QR 102.8 billion vis-à-vis QR 23.1 billion in 2004. Whereas the number of shares traded rose by 238.3%, reaching 1033.1 million shares, vis-à-vis 305.4 million shares in 2004. Services sector ranked first in terms of the value of shares traded, occupying a relative share of 43.32% of the total value of traded shares; followed by the banking sector which accounted for 27.66% ; then by the industrial sector by 26.57%, and finally by the insurance sector by 2.45%.

Similarly, the service sector came first in terms of the number of shares traded on the DSM, accounting for 67.41% of the total; followed by the industrial sector (22.29%); the banking sector (9.17%); and the insurance sector (1.13%).

The market value of shares listed on the DSM increased by 115.5% end-2005, reaching QR 317.2 billion vis-à-vis QR 147.2 billion end-2004. The market value reached its peak in September 2005 when it slightly passed QR 370 billion. The rise in the market value came as a result of listing two new companies, namely Qatar Gas Transport Company (Nakilat) and Dlala Brokerage, rising value of shares, and the increases in the capital of sixteen listed companies during the year.

On the other hand, the aggregate value of profits earned by the companies listed in 2005 came approximately to QR 11.4 billion, increasing by 44.6% over the profit levels realized in 2004 which amounted to QR 7.83 billion, with only one company realized a loss in 2005, vis-à-vis three companies in 2004. The aggregate level of banking sector profits came close to QR 4.2 billion, accounting for 36.7% of total corporate profits, of which QR 1.5 billion were earned by QNB. The industrial sector came second (after the banking sector) in terms of profits earned in 2005, earning about QR 3.7 billion, or 32.4% of the total, most of which (QR 3.2 billion) were made by one company (Qatar Industrial Manufacturing); the service sector came in the third place in terms of profits, earning about QR 2.9 billion, or 25.4% of the total, most important of which was QTEL, which earned about QR 1.1 billion. Finally, insurance companies realized QR 635.4 million, or 5.5% of the total, most important among them was the profit earned by Qatar Insurance, which amounted to QR 285 million in 2005.

Table No (2-33)

Closing Prices of Shares of Listed Companies on DSM

Sector	Companies	Closing Prices in QR		Relative Change %
		2005	2004	
Banks	Al-Ahli Bank of Qatar	115.0	89.3	28.8
	Commercial Bank of Qatar	229.70	206.9	11.0
	Qatar International Islamic Bank	525.80	235.9	122.9
	Qatar Islamic Bank	361.90	219.8	64.6
	Qatar National Bank	377.10	199.7	88.8
	Doha Islamic Bank	315.20	223.1	41.3
Insurance	Qatar Insurance	422.70	260	62.6
	Al Khaleej Insurance	191.50	200	-4.2
	Doha Insurance	65.70	54.1	21.4
	Qatar General Insurance & Reinsurance	311.50	300	3.8
	Qatar Insurance	247.80	260	-4.7
Industry	Qatar National Cement	260.30	225	15.7
	Qatar Industrial Manufacturing	104.30	39.3	165.4
	Qatar German Medical	29.90	27.8	7.6
	Qatar Flour Mills	28.30	24.5	15.5
	Qatar Industries	150.00	61.1	145.5
	United Development	74.70	28.5	162.1
Services	Al-Ahli Hospital	31.30	52	-39.2
	Salam International Investment	80.30	12.5	542.4
	Qatar Cinema and Film Distribution	70.00	73	-4.1
	Qatar Real Estate Investment	107.10	84.7	26.4
	Qatar National Navigation and Transport	277.60	133	108.7
	Qatar Shipping	107.10	113.9	-6.0
	Qatar Fuel	126.20	40	215.5
	Qatar Telecom	239.90	229.8	4.4
	Qatar Electricity and Water	77.40	55.7	39.0
	National Leasing	63.80	32.9	93.9
	Qatar Technical Inspection	48.90	66.2	-26.1
	Qatar Meat and Livestock (Al-Mawashi)	28.80	21	37.1
	Gulf Warehousing	42.40	23.5	80.4
	Qatar Gas Transport Company (Nakilat)	48.70	5	-
Dlala Brokerage and Investment Holding Co.	121.10	10	-	
General Market Index (1997=100)	11,053.06	6,493.60	70.2	

Table No (2-34)

Trading on the Doha Securities Market

Sectors	2005	2004	Change %
Banking			
Value Traded (QR million)	28,541.3	9,257.8	207.3
Volume Traded (Thousands of Shares)	94,686.9	54,883.5	72.5
Insurance			
Value Traded (QR million)	2,516.0	920.8	173.2
Volume Traded (Thousands of Shares)	11,695.2	8,451.6	38.4
Services			
Value Traded (QR million)	44,552.2	8,027.6	455.0
Volume Traded (Thousands of Shares)	696,435.5	143,484.8	385.4
Industrial			
Value Traded (QR million)	27,323.1	4,888.3	485.9
Volume Traded (Thousands of Shares)	230,263.5	98,566.8	133.6
Total			
Value Traded (QR million)	102,842.7	23,094.6	345.3
Volume Traded (Thousands of Shares)	1,033,081.1	305,386.7	238.3

Qatar's commodity foreign trade with the rest of the world revealed a considerable growth in 2005 as it grew by QR 40.5 billion, or 45.1%, above the previous year level, reaching QR 130.4 billion in 2005.

An attention drawing phenomenon is the vast acceleration in the rates of growth in Qatar's foreign trade, which is considered as one of the fruits reaped by the wise policy followed by the Government of Qatar, whether through encouraging the establishment of mega projects which are capable of generating a huge export capacity, or especially stimulating investments in the field of oil and gas, the fruits of which are beginning to ripen.

Despite the relatively low growth rate in Qatar's foreign trade in 2002 (no more than 2.7%), it has accelerated strongly, reaching 21.6% in 2003, and 35.1% in 2004, and 45.1% in 2005.

These developments have reflected positively on the degree of openness of the State of Qatar to the rest of the world, measured by the percentage of foreign trade to GDP, which rose strongly in 2005 reaching 84.4% by year's end, vis-à-vis 77.8% in the previous three years.

The following paragraphs provide a detailed discussion of the developments witnessed by Qatar's imports of goods, the balance of payments, and the exchange rate of the Qatari Riyal.

Classification of Imports (CIF) by Major Economic Groups

1. The Gulf Cooperation Council Countries (GCC):

Available data of Qatar's foreign trade reveals that 2005 witnessed an increase of imports (CIF) from GCC-countries by QR 1,112 million, or 27.7%, from QR 4,013 million in 2004 to QR 5,125 million in 2005. Furthermore, the physical volume of these imports (tonnage) also went up by 41.1% (up from 4.12 million tons in 2004 to 5.81 million tons in 2005).

However, the Trade Balance with GCC countries reflected a surplus of QR 941 million in 2005 after being in deficit of QR 38 million in 2004. However, in spite of the increase in imports from GCC countries in 2005, their relative share (14% in 2005) still came in third, after imports from the European Union countries and the Non-Arab Asian countries. The decline in the relative share of imports from GCC countries is explicable by the faster increases in the overall level of imports in general, and from these two

groups of countries in particular, during the last few years of fast and accelerating growth experienced by the economy of Qatar.

2. Other Arab Countries:

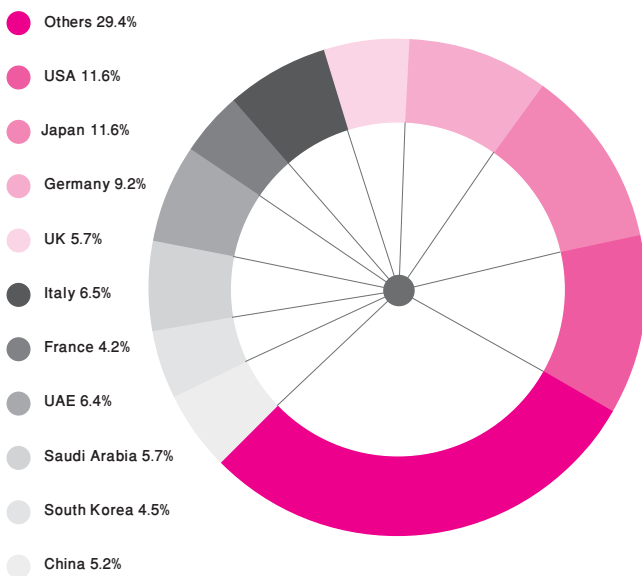
Imports from Non-Gulf Arab countries represented a relative share of 1.6% of total imports in 2005. Imports (CIF) from this group of countries rose from QR 373 million in 2004 to QR 583 million in 2005. However, the "Trade Balance" reflected a surplus with this group of countries, the Non-Gulf Arab Countries, equal to QR 213 million in 2005.

3. European Union Countries:

In terms of imports, the European Union (EU-countries) are easily considered the major trading partner of the State of Qatar in 2005. The relative share of Qatar's imports (CIF) from the EU-countries came first among all groups of countries. The value of Qatar's imports from this group of countries in 2005 reached QR 12,294 million, up by QR 2,268 million, or 22.6%, from the previous year's level of QR 10,026 million. On

one hand, most of the increase in the value of Qatari imports from EU-countries in 2005 took place due to the cross-currency appreciation of the Euro currency (€) against the US dollar (\$), hence against the QR, by the cumulative sum of month-to-month changes (shown in Table 2-35) equal to -11.9% in 2005. On the other hand, the rise in the volume (tonnage) of Qatar's imports from this group of countries was 28.8%, vis-à-vis 22.6% increase in value, indicating a lower cost per unit (kilogram) of imports by 4.8% from last year's level seems to confirm this conclusion. Furthermore, the "Trade Balance" with the EU-countries reflected a deficit of QR 9,118 million in 2005.

Figure No (2-9) :
Classification of Imports



4. Other European Countries:

In terms of their relative share of total Qatar's imports in 2005, imports from Other European countries which reached QR 665 million, ranked sixth, representing 2.0% of total imports. The Trade Balance with "Other European countries" reflected a deficit of QR 402 Million in 2005.

Table No (2-35)

Monthly Exchange Rate Changes in the Qatari Riyal vis-à-vis the Euro in 2005

Period	QR per one Euro	% Change
Jan-2005	4.8690	-
Feb	4.8276	-0.8503
Mar	4.7189	-2.2516
Apr	4.7089	-0.2119
May	4.6198	-1.8922
Jun	4.4282	-4.1474
Jul	4.3803	-1.0817
Aug	4.4717	2.0866
Sep	4.4605	-0.2505
Oct	4.3732	-1.9572
Nov	4.2897	-1.9094
Dec	4.3154	0.5991
TOTAL	-	-11.8663

5. Non-Arab Asian Countries:

Imports (CIF) from Non-Arab Asian countries in 2005 came in the second place after the imports from the EU-countries. Qatar's imports from this group of countries increased notably by QR 7,280 million, or 201.3%, reaching QR 12,094 million in 2005. The relative share of this group of countries increased from 18.36% in 2004 to 33.02% in 2005. However, Qatar's Trade Balance reflected a surplus of QR 61,237 million with this group of countries in 2005. It is the largest surplus among all groups of countries.

6. North American Countries:

Imports from "North American Countries" ranked fourth in 2005, reaching QR 4,397 million, vis-à-vis QR 1,894 million in 2004. Thus, the relative share of this group of countries rose very slightly from 11.81% in 2004 to 12.01% in 2005.

It is worth noting that Qatar's imports from the USA was the largest, occupying 11.56 percentage points, whereas imports from Canada occupied only 0.45 percentage point in the relative share of this group. The Trade Balance with this group of countries reflected a deficit of QR 2,800 million in 2005.

7. Other American Countries:

This group of countries comprises all countries located south of the southern border of the USA. The (CIF) imports from "Other American countries" ranked fifth in 2005, increasing by 54.9%, reaching QR 669 million vis-à-vis QR 432 million in 2004. In spite of this notable increase, the relative share of this group of countries declined slightly

reaching 2.03% in 2005 vis-à-vis 2.19% in 2004. The Trade Balance with this group of countries reflected a deficit of QR 569 million in 2005.

8. Pacific Ocean Countries:

Imports (CIF) from this group of countries, which includes Australia and New Zealand, came in the eighth place. The value of these imports amounted to QR 494 million in 2005, vis-à-vis QR 266 million in 2004; i.e. an increase of QR 228 million, or 85.7%, in 2005. Thus, this increase led to a slight incline in the relative share of this group of countries from 1.22% to 1.35%, but did not change the rank of the group. Qatar's Trade Balance with this group of countries reflected a surplus of QR 484 million in 2005.

9. African (Non-Arab) Countries:

Qatar's imports from the African (Non-Arab) countries in 2005 ranked ninth. The value of (CIF) imports from this group of countries reached QR 130 million in 2005, vis-à-vis QR 58 million in 2004; i.e. increasing by 124.1%. However, in spite of this notable proportional increase in imports, the Trade Balance with this group of countries reflected a surplus of QR 803 million in 2005.

10. Unclassified Countries:

Qatar's imports (CIF) from the group of the "Unclassified countries" ranked tenth and last, reaching QR 10 million in 2005. However, the Trade Balance with this group of countries reflected a surplus of QR 9,992 million in 2005.

Table No (2-36)

Geographical Distribution of Imports

Million QR

Country	2001	2002	2003	2004	2005
Arab Countries	1,868.0	2,590.1	2,983.7	4,386.9	5,708.4
U. A. E.	711.0	1,039.4	1,187.5	1,381.3	2,355.9
Saudi Arabia	727.2	917.6	1,060.0	2,079.0	2,093.1
Bahrain	80.1	122.5	235.0	289.2	224.0
Jordan	55.3	72.2	54.4	53.6	86.5
Lebanon	34.2	36.2	48.8	85.7	151.0
Kuwait	56.2	105.1	74.8	103.0	171.1
Syria	79.0	120.3	92.8	122.0	144.1
Egypt	30.8	56.9	105.6	73.2	171.8
Oman	70.9	91.9	103.6	161.2	281.2
Others	23.3	28.0	21.2	38.7	29.7
Asian Countries	3,663.0	4,173.0	5,120.9	4,012.8	12,093.7
Japan	1,298.0	1,552.6	1,866.4	1,141.4	4,263.0
India	316.6	440.3	560.9	513.7	1,411.7
South Korea	598.7	528.2	883.1	408.9	1,657.8
China	389.4	467.3	604.9	668.3	1,892.3
Hong Kong	65.6	133.7	54.5	39.3	50.1
Taiwan	113.4	113.4	108.8	87.2	208.2
Malaysia	183.9	215.2	215.3	142.5	434.9
Iran	89.8	68.5	65.6	49.8	189.9
Indonesia	132.7	156.3	160.1	157.9	381.6
Pakistan	116.3	104.5	116.4	95.2	162.8
Thailand	118.1	127.0	151.7	136.5	522.6
Singapore	96.8	122.2	155.2	403.4	410.1
Turkey	68.2	90.7	106.6	117.0	253.9
Philippines	39.3	27.6	28.9	21.1	114.9
Others	36.2	25.5	42.5	30.6	139.9
European Countries	5,478.8	5,422.2	6,681.7	10,545.7	13,032.1
U. K.	1,094.6	1,123.7	1,430.4	1,119.3	2,096.3
Germany	1,248.7	1,032.3	1,719.7	1,148.9	3,361.9
Italy	1,333.8	1,333.0	1,326.4	740.3	2,364.7
France	606.3	614.2	592.1	5,846.1	1,547.3
Holland	315.8	338.2	339.4	275.6	671.4
Switzerland	200.3	189.2	225.0	391.3	510.0
Belgium	133.9	170.7	192.9	216.8	437.1
Sweden	80.0	84.0	127.8	105.0	173.7
Spain	146.9	184.5	220.4	180.8	417.3
Denmark	62.2	65.7	72.4	47.5	221.5
Austria	51.2	58.0	75.3	85.4	217.2
Ireland	62.1	60.3	74.3	75.2	146.6
Greece	27.1	20.9	15.0	9.6	39.6
Norway	18.3	20.2	31.3	31.6	38.6
Romania	6.2	13.0	27.2	18.0	51.3
Others	91.4	114.3	212.1	254.3	737.6
American Countries	2,216.0	2,281.1	2,655.5	2,580.6	5,139.6
U. S. A.	1,876.7	1,922.9	2,170.9	2,102.0	4,232.4
Brazil	128.4	144.6	164.8	208.7	431.9
Canada	83.6	115.7	119.6	48.9	164.2
Argentina	37.3	35.5	47.7	35.6	100.3
Mexico	64.4	43.7	48.5	20.4	102.3
Others	25.6	18.7	104.0	165.0	108.5
Pacific Oceanic Countries	284.6	234.0	317.1	265.8	493.5
Australia	266.6	216.4	293.9	250.3	450.9
New Zealand	18.0	17.6	23.2	15.5	42.6
African Countries	46.1	48.3	67.3	64.4	143.9
Not Specified	121.8	0.7	0.1	0.0	9.8
Total	13,678.3	14,749.4	17,826.3	21,856.2	36,621.0

Table No (2-37)

Geographical Distribution of Exports

Million QR

Country	2001	2002	2003	2004	2005
Arab Countries	1,391.0	3,200.1	2,162.7	3,611.1	5,250.2
U. A. E.	702.5	1,353.9	1,124.6	1,974.0	3,822.4
Saudi Arabia	416.5	575.9	599.8	706.2	631.3
Bahrain	36.8	69.4	96.6	110.5	166.1
Jordan	43.9	39.0	18.6	82.7	113.2
Lebanon	19.9	36.2	10.7	52.7	11.1
Kuwait	45.9	66.3	59.4	183.1	60.9
Syria	27.4	13.2	97.4	63.1	76.4
Egypt	38.8	953.0	84.5	62.2	139.2
Oman	17.7	26.7	26.1	28.6	42.4
Yemen	27.2	27.4	7.3	42.8	16.4
Others	41.6	41.8	21.7	57.2	170.8
Asian Countries	34,655.3	31,847.4	40,250.6	54,171.1	71,965.6
Japan	20,174.8	18,628.1	22,412.5	28,312.8	37,502.3
India	559.7	364.8	535.5	3,655.0	3,203.4
South Korea	7,803.5	6,320.6	9,018.5	10,676.8	14,770.9
China	1,190.4	421.4	937.9	751.3	1,369.1
Taiwan	84.3	99.4	316.7	921.8	2,381.6
Malaysia	149.4	15.5	16.5	52.0	98.8
Iran	14.4	86.8	28.5	217.5	142.1
Indonesia	71.5	42.5	10.7	86.7	16.0
Pakistan	43.4	54.5	57.1	422.8	752.9
Thailand	936.0	1,365.8	1,451.8	1,153.3	1,893.8
Singapore	2,677.9	3,696.7	4,628.2	6,167.1	7,657.9
Turkey	17.5	20.1	19.4	19.7	96.5
Philippines	698.4	461.5	577.1	782.5	1,092.2
Others	234.1	269.7	240.2	951.8	988.1
European Countries	300.8	660.5	940.4	1,878.6	1,942.4
U. K.	17.7	3.0	101.2	199.4	3.7
Germany	0.6	0.9	1.7	0.3	15.0
Italy	0.0	373.5	34.7	73.7	55.7
France	29.6	0.0	25.6	19.0	165.3
Holland	39.5	186.1	160.2	33.9	566.4
Belgium	9.4	9.4	16.8	7.5	56.5
Spain	203.9	80.4	546.7	1,257.8	892.2
Greece	0.0	5.1	12.7	66.5	16.5
Others	0.1	2.1	40.8	220.5	171.1
American Countries	1,437.9	1,014.6	787.9	986.5	1,230.5
U. S. A.	1,378.9	1,009.6	764.7	854.6	1,133.4
Canada	25.5	1.1	1.5	124.4	0.3
Chile	7.5	2.0	2.3	0.8	6.8
Peru	3.1	1.3	2.1	6.1	13.8
Others	22.9	0.6	17.3	0.6	76.2
Pacific Oceanic Countries	787.7	363.4	383.5	828.7	922.2
Australia	623.1	198.2	143.2	579.1	482.6
New Zealand	164.6	165.2	240.3	249.6	439.6
African Countries	364.9	232.4	312.1	5,686.3	922.6
Not Specified	31.0	1,888.5	3,184.1	0.0	10,000.1
Total	38,968.6	39,206.9	48,021.3	67,162.3	92,233.6

The QR Exchange Rate

Since 1975, the Qatari Riyal (QR) had been officially pegged against the unit of SDRs, allowing the QR exchange rate to fluctuate within 7.25% on both sides. But since 1980, and despite the official peg that prevailed at the time, the QR exchange rate was pegged "de facto" against the US dollar, at QR 3.64 per one US dollar. This "de facto" peg continued to prevail until the middle of 2001, when the Amiri Decree issued into Law adopted the "de facto" market exchange rate as the official exchange rate (i.e. 3.64 Riyals per each US Dollar). Since then, the QR peg against the US dollar has been officially established.

In 2005, dealings in foreign exchange against the QR have shown different picture from the one that had been prevailing for the preceding three years, except for the US dollar. Available data presented by Tables (2-38) and (2-39) indicate obvious improvements in the QR exchange rates against the major foreign currencies (other than the US dollar) whether taken as end-of-period or as period averages (except for the Euro period average), contradicting the depreciation trend recorded for the past three years prior to 2005.

Table No (2-38)

The Exchange Rate of the QR Against Major Foreign Currencies

		(QR)			
Currencies	Period	2002	2003	2004	2005
Euro	Average	3.4265	4.1084	4.5197	4.5267
	End-of-Period	3.8171	4.5960	4.9580	4.2941
Sterling	Average	5.4647	5.9478	6.6678	6.6263
	End-of-Period	5.8670	6.4974	7.0303	6.2677
Yen(100)	Average	2.9029	3.1397	3.3644	3.3025
	End-of-Period	3.0359	3.3987	3.4960	3.0855
Swiss Franc	Average	2.3354	2.7023	2.9272	2.9233
	End-of-Period	2.6247	2.9426	3.2167	2.7695
SDR	Year-end	4.9490	5.4090	5.6530	5.2030

By focusing on the end-of-period exchange rate movements, it could be observed from Table No (2-38) that the QR has made an estimated 15.5% progress against the Euro by the end of 2005; in contrast with continuous depreciation in the three years prior to 2005: 7.3% in 2004, 16.9% in 2003, and 16.0% in 2002. Similarly, the QR exchange rate against the Japanese Yen (100) showed an improvement by 13.3% compared with three years of consecutive depreciation: 2.8% in 2004, 10.7% in 2003, and 9.0% in 2002. The same pattern prevailed against the Sterling Pound, where the improvement in the QR exchange rate was 12.2% in 2005, after three years of continuous depreciation: 7.6% in 2004, 9.7% in 2003, and 10.0% in 2002. The situation was not different for the QR

against the Swiss Franc and the SDR, where the QR recorded a strong 16.1% appreciation against the Swiss Franc and a smaller 8.7% appreciation against the SDRs, after depreciating by 8.5% and 4.3% against them in 2004, respectively.

As for the trends in the period-average of QR exchange rates, the appreciation of the QR against the major currencies (except for the Euro) could be described as moderate. For example, QR recorded 1.9% as an average appreciation against the Japanese Yen (100), vis-à-vis a depreciation of 6.7% in 2004. Similarly, the QR recorded 0.6% as an average appreciation against the Sterling Pound in 2005, vis-à-vis average depreciation of 10.8% in 2004. Finally, the QR realized only a marginal improvement against the Swiss Franc that averaged 0.1% vis-à-vis average depreciation of 7.7% in 2004. Contrary to these trends, the QR recorded marginal depreciation against the Euro, averaging 0.2% in 2005, vis-à-vis a more noticeable 9.1% average depreciation in 2004.

Table No (2-39)

Changes in the Exchange Rate of QR against Major Currencies

Currencies	Period	2002				2003				2004				2005			
Euro	Average	-4.9	-16.6	-9.1	-0.2	-16.0	-16.9	-7.3	15.5	-3.2	-7.5	-6.7	1.9	-9.0	-10.7	-2.8	13.3
	End-of-Period	-4.1	-8.1	-10.8	0.6	-10.0	-9.7	-7.6	12.2	-7.6	-13.6	-7.7	0.1	-17.3	-10.8	-8.5	16.1
Yen(100)	Average	-7.6	-13.6	-7.7	0.1	-7.56	-8.5	-4.3	8.6								
	End-of-Period																
Pound Sterling	Average																
	End-of-Period																
Swiss Franc	Average																
	End-of-Period																
SDR	End-of-Period																

As for the relation with the US dollar, the QR maintained a good degree of stability at the parity in 2005, in spite of the strong capital inflows witnessed by Qatar's economy, and the strong increases of government expenditures. Assisted in this is the fact that the ratio of the coverage of the money base by QCB foreign assets exceeds the 200% mark. This means that QCB possesses at least two dollars for every one US dollar worth of Qatari Riyals (equivalent to QR 3.64) of base money, which consists of currency issued (i.e. the QCB commitment towards the holders of the Qatari banknotes) and the balances of banks operating in Qatar with QCB (i.e. QCB commitment towards the banking industry).

There is no doubt that the wise exchange rate policy of the State, adopted by QCB, has proven an outstanding success in achieving the stability of the QR exchange rate; and consequently, led to stability in the domestic inflation at acceptable levels, where the

rate of inflation of tradable goods (viewed as an indicator of imported inflation) reached 0.8% in 2002, 0.7% in 2003, and 5.1% in 2004 despite the rise of oil prices witnessed by the international oil markets during these years. That is, imported inflation in Qatar during the period of depreciating QR exchange rate against major currencies was very low, started to rise only during 2004, whence it recorded a lower rate (5.1%) than the rate recorded in 2005 (5.8%). This indicates a higher likelihood that the imported inflation that prevailed in this period (2002-2005) was attributable to the rising costs of production in the countries where Qatar's imports originate and the rising costs of shipping and transport (as a direct result of rising fuel prices) more than being attributable to the depreciation of the QR exchange rate.

The Balance of Payments

The "Overall Balance" of Payments for the State of Qatar realized a surplus of QR 16,122 million in 2005, vis-à-vis QR 14,294 million in 2004; that is a growth of 12.8%. The similar increase realized in the Current Account (CA), which amounted to QR 11,506 million in 2005, was the outcome of the Trade Balance rise by QR 12,460 million, from QR 48,321 million in 2004 to QR 60,781 million in 2005. The details of the BOP accounts presented by Table No (2-40) reveal that the sizeable Current Account (CA) surplus, valued at QR 38,994 million in 2005, was mainly responsible for having this "overall balance surplus".

Table No (2-40)

Balance of Payments for the State of Qatar (2001-2005)

Million QR

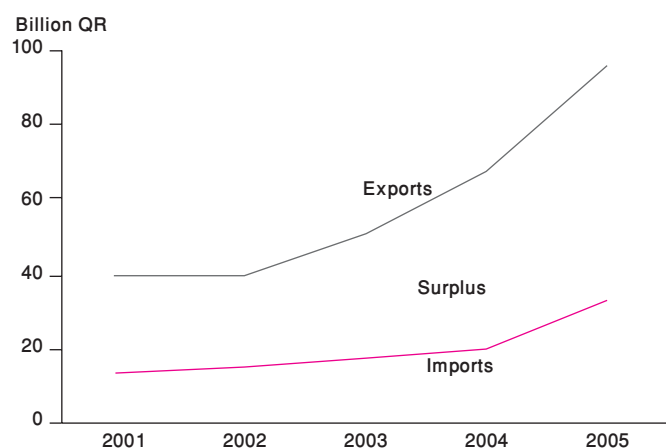
Items	2001	2002	2003	2004	2005
Current Account	15,133	13,919	20,943	27,488	38,994
Trade Balance	27,247	26,673	32,846	48,321	60,781
Services	-3,743	-3,966	-4,380	-4,468	-3,362
Income	-2,562	-3,266	-1,516	-8,160	-9,045
Transfers	-5,829	-5,522	-6,007	-8,205	-9,380
Capital & Financial Account	-3,839	-6,233	-2,754	-4,861	-14,765
Capital Account	0	-1,357	-1,160	-2,004	-2,742
Financial Account	-3,839	-4,876	-1,594	-2,857	-12,023
Overall Surplus or Deficit	9,555	6,511	15,399	14,294	16,122

The following paragraphs elaborate in more detail on the developments of the Balance of Payments major items in 2005.

1. Current Account (CA)

After a one-year pause in 2002, the march of the Current Account (CA) surplus resumed its upward trend in 2003 and continued throughout the last three years. The CA surplus rose from QR 27,488 million in 2004 to QR 38,994 million in 2005, i.e. an increase by QR 11,506 million, or 41.9%. The details underlying the changes occurring in 2005 are as follows:

Figure No (2-10) :
Qatar's Trade Balance



A. Trade Balance (Goods Account):

The surplus of the Trade Balance reached QR 60,781 million in 2005, vis-à-vis QR 48,421 million in 2004. Thus, revealing a rise of QR 12,460 million, or 25.5% from its previous level. The increase in the Trade Balance surplus was

the result of interactions between varying increases in exports and imports in 2005. On the one hand, exports rose from QR 68,012 million in 2004 to reach QR 93,773 million in 2005; increasing by QR 25,761 million, or 37.9%. On the other hand, imports rose from QR 19,691 million in 2004 to reach QR 32,992 million in 2005; increasing by QR 13,301 million, or 67.5%. Table No (2-41) presents more details.

Table No (2-41)

Trade Balance (Goods Account)

Items	Million QR				
	2001	2002	2003	2004	2005
Exports	39,571	39,960	48,711	68,012	93,773
Oil	20,422	20,488	24,449	31,046	54,203
Natural Gas	14,921	12,756	15,447	23,497	27,535
Others	3,625	5,963	8,125	12,619	10,495
Re-exports	603	753	690	850	1,540
Imports	-12,324	-13,287	-15,865	-19,691	-32,992
Trade Balance	27,247	26,673	32,846	48,321	60,781

Exports (FOB)

Qatar's oil exports continued to occupy the first and most important place among the components of total exports. The oil exports (FOB) amounted to QR 54,203 million in value, and represented a relative share equal to 57.8% of total exports in 2005. The increase in oil exports amounted to QR 23,157 million, or 74.6%, from their level reached in 2004. Whereas, Qatar's exports of Natural Gas relative share stood at 29.4%

of total exports in 2005, reaching QR 27,535 million, realizing an increase of QR 4,038 million, or 17.2% over its 2004 level. It is worth noting that Non-Oil exports ("Others" in Table 2-41) experienced a slight decrease in 2005, which amounted to QR 2,124 million, or 16.8% vis-à-vis its 2004 level.

Imports (FOB)

Total imports (FOB) jumped from QR 19,691 million in 2004 to reach QR 32,992 million in 2005, that is an increase by QR 13,301 million, or 67.4%. This record level and increase in imports came by because of the large investment undertakings in all sectors of Qatar's economy in 2005. Hence, higher imports of all types of merchandise to fulfill these projects.

B. The Services Account:

The size of the deficit in the Services Account came out smaller in 2005 than its size in 2004. The deficit shrank to QR 3,362 million in 2005, vis-à-vis QR 4,468 million in 2004, i.e. a decrease by QR 1,106 million, or 24.8%. This decline was possible as the increases in travel, transportation and other services items on the (credit) side rose faster than the same items on the (debit) side in 2005.

Table No (2-42)

The Services Account of Qatar's Balance of Payments

Million QR

Items	2001	2002	2003	2004	2005
Services (Credit)	2,495	2,572	4,141	6,110	11,723
Travel	991	1,037	1,342	1,812	2,768
Transportation	1,357	1,129	2,285	4,112	6,271
Other Services	147	406	514	186	2,684
Services (Debit)	-6,238	-6,538	-8,521	-10,578	-15,085
Travel	-1,331	-1,538	-1,713	-2,515	-6,403
Transportation	-1,231	-1,329	-1,606	-1,969	-6,324
Other Services	-3,676	-3,671	-5,202	-6,094	-2,358
Services Account Balance	-3,743	-3,966	-4,380	-4,468	-3,362

C. The Income Account

The gap of the Income Account reflected a widening by QR 885 million in 2005 in comparison with 2004. The deficit (gap) reached QR 9,045 million in 2005, vis-à-vis QR 8,160 million in 2004. This widening came by as a result of the interaction between the increase in the (debit) income in 2005 by QR 1,391 million, or 10.9% from its level in the pervious year; on the one hand, and the humble increase in the (credit) income by a mere QR 0.506 million, or 10.9%, from its level reached in 2004, on the other band.

Table No (2-43)

The Income Account of Qatar's Balance of Payments 2001-2005

Million QR

Items	2001	2002	2003	2004	2005
Income (Credit)	3,231	2,582	4,927	4,633	5,139
Income (Debit)	-5,793	-5,848	-6,443	-12,793	-14,184
Income Account Balance	-2,562	-3,266	-1,516	-8,160	-9,045

D. Current Transfers

The deficit in the Current Transfers Account increased in 2005, pushing the level of the deficit up to reach QR 9,380 million. The increased deficit is attributed mainly to the increase of foreign workers' remittances to their home countries by QR 3,025 million, or 38.2%, from the level reached in 2004.

Table No (2-44)

Current Transfers Account of Qatar's Balance of Payments (2001-2005)

Million QR

Items	2001	2002	2003	2004	2005
Workers Remittances	-5,485	-5,398	-5,802	-7,920	-10,945
Other Transfers (net)	-344	-124	-205	-285	1,565
Current Transfers Balance	-5,829	-5,522	-6,007	-8,205	-9,380

2. The Capital and Financial Account:

The Capital and Financial Account reflected a deficit of QR 14,765 million in 2005, vis-à-vis QR 4,861 million in 2004. The deficit is attributable mainly to banking system increases of portfolio investments abroad by approximately QR 7,428 million during 2005, above the levels reached end-2004.

Table No (2-45)

Capital and Financial Account

Million QR

Items	2001	2002	2003	2004	2005
Capital Account	-	-1,357	-1,160	-2,004	-2,742
Financial Account (Net)	-3,839	-4,876	-1,594	-2,857	-12,023
Capital & Financial Account Balance	-3,839	-6,233	-2,754	-4,861	-14,765

3. Overall Balance of Payments

Due to the developments taking place in the Current Account and the Capital and Financial Account, the Overall Balance of Payments reflected a surplus equal to QR 16,122 million in 2005, increasing by QR 1,828 million, or 12.8%, over the level reached in 2004.

Figure (2-11):
Qatar's Balance of Payments

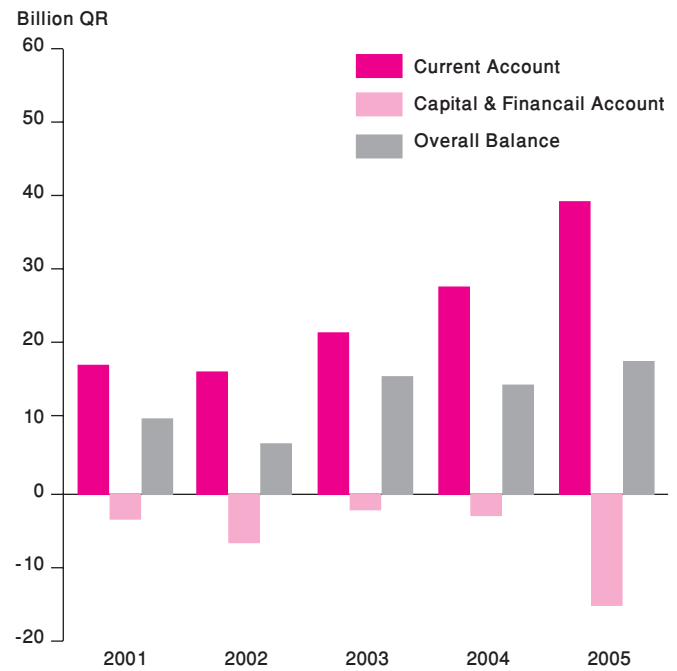


Table No (2-46)

The Balance of Payments

Million QR

Items	2002	2003	2004	2005
Current Account	13,919.0	20,943.0	27,488.0	38,994.0
Goods	26,673.0	32,846.0	48,321.0	60,781.0
Exports (F.O.B.)	39,960.0	48,711.0	68,012.0	93,773.0
Crude Petroleum	20,488.0	24,449.0	31,046.0	54,203.0
Natural Gas	12,756.0	15,447.0	23,497.0	27,535.0
Others	5,963.0	8,125.0	12,619.0	10,495.0
Re-Export	753.0	690.0	850.0	1,540.0
Imports (F.O.B.)	-13,287.0	-15,865.0	-19,691.0	-32,992.0
Services	-3,966.0	-4,380.0	-4,468.0	-3,362.0
Services (Credit)	2,572.0	4,141.0	6,110.0	11,723.0
Travel	1,037.0	1,342.0	1,812.0	2,768.0
Transportation	1,129.0	2,285.0	4,112.0	6,271.0
Others	406.0	514.0	186.0	2,684.0
Services (Debit)	-6,538.0	-8,521.0	-10,578.0	-15,085.0
Travel	-1,538.0	-1,713.0	-2,515.0	-6,403.0
Transportation	-1,329.0	-1,606.0	-1,969.0	-6,324.0
Others	-3,671.0	-5,202.0	-6,904.0	-2,358.0
Income	-3,266.0	-1,516.0	-8,160.0	-9,045.0
Income (Credit)	2,582.0	4,927.0	4,633.0	5,139.0
Income (Debit)	-5,848.0	-6,443.0	-12,793.0	-14,184.0
Transfers	-5,522.0	-6,007.0	-8,205.0	-9,380.0
Workers' Remittances	-5,398.0	-5,802.0	-7,920.0	-10,945.0
Others (Net)	-124.0	-205.0	-285.0	1,565.0
Capital & Financial Account	-6,233.0	-2,754.0	-4,861.0	-14,765.0
Capital Account	-1,357.0	-1,160.0	-2,004.0	-2,472.0
Financial Account (Net)	-4,876.0	-1,954.0	-2,857.0	-12,023.0
Net Errors & Omissions	-1,175.0	-2,790.0	-8,333.0	-8,107.0
Overall Balance	6,511.0	15,399.0	14,294.0	16,122.0
Change in Reserves (Increase -)	-6,511.0	-15,399.0	-14,294.0	-16,122.0