



Annual Macroeconomic Review 2022



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Overall Assessments

Executive Summary

In 2022, notwithstanding the global headwinds, the Qatari economy experienced accelerated growth, with non-oil sectors leading the expansion. The real GDP in 2022 grew by 4.2%, almost three times the growth of 1.6% in 2021, with non-oil sectors growing by 5.7%. Nominal GDP, on the other hand, expanded by 31.5% due to an increase in oil and gas prices in 2022. In line with the National Development Plan, the non-hydrocarbon sector's share has been gradually improving in Qatar's economy.

Retail inflation rose significantly to 5.0% in 2022 from 2.3% in 2021, though lower than those recorded in several advanced economies. Core inflation turned notably lower than headline inflation in the second half of 2022. A part of this increase in inflation was due to the FIFA World Cup 2022, and components such as "Recreation & Culture", "Housing", and "Food & Beverages" were the main contributors to overall inflation. Inflation is expected to moderate going forward.

The fiscal position of the government improved in line with the rise in oil and gas prices, leading to a large revenue surplus in 2022. Consequently, the budget surplus in terms of percentage of GDP also improved in 2022. The rise in oil and gas prices also boosted merchandise exports and led to an increase in trade surplus. The current account recorded a huge surplus of 26.7% of GDP in 2022. Going forward, these twin surpluses are likely to ensure the Qatari economy's resilient and robust position.

Financial markets in Qatar remained largely stable. Primary liquidity in the banking system remained at an elevated level until end-September 2022. However, primary liquidity declined since October 2022 due to enhanced liquidity absorption measures undertaken by QCB, and this led to better monetary policy transmission by aligning the Average Overnight Interbank Rate (AOIR), the operating target, with the QCBDR (floor rate).

While the policy-driven primary liquidity absorption led to a marked decline in reserve money in 2022, the broad money supply grew significantly, with deposits in foreign currencies growing rapidly due to higher oil revenue and rising deposit rates. Total domestic bank credit decelerated significantly in 2022, again partly due to the completion of the FIFA World Cup-related projects, with private-sector credit growth slowing moderately and public-sector credit contracting.

Qatar's economy has been on a long-term growth path before the FIFA World Cup 2022, with diversification efforts accelerated by the construction of new infrastructure and the tourism industry. Post-FIFA World Cup, the tourism industry is expected to continue growing, strengthening services activity. The Third National Development Strategy aims to shift the economy towards a knowledge-based, inclusive economy. Qatar is at an important crossroad with public policies encouraging dynamic private sector-driven developments for sustainable growth.

01

CHAPTER 01

DOMESTIC MACROECONOMIC DEVELOPMENTS

Section 1: National Accounts and
Sectoral Developments

Section 2: Inflation

Section 3: Balance of Payments

Section 4: Public Finance



Section 1:

National Accounts and Sectoral Developments

Introduction

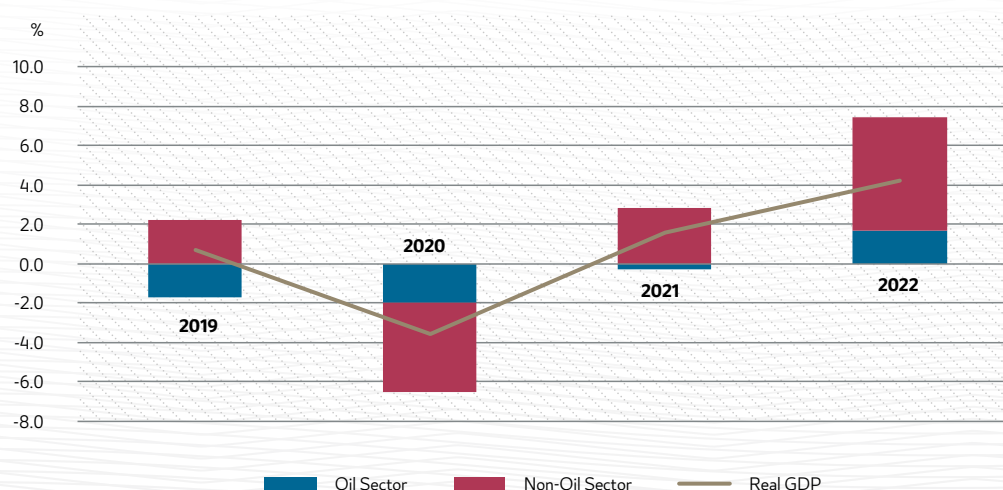
The year 2022 was undoubtedly exceptional given that Qatar had just recovered from the COVID-19 pandemic and was set to host the FIFA World Cup 2022. Development in the domestic economy in 2022 was in sharp contrast to that of the global economy. Real GDP growth decelerated markedly across economies in 2022 due to factors such as synchronized policy tightening, disruption in economic activity due to war in Ukraine and lockdown under zero-COVID policy in China.

In sharp contrast, Qatar's real GDP growth accelerated significantly in 2022. From the demand side the most important driving force were activities related to the 2022 FIFA World Cup, which generated broad based consumption and investment demand. This was further supported by higher government expenditure.

Real Gross Domestic Product

Real GDP in 2022 grew by 4.2%, which is almost three times the growth of 1.6% in 2021. The growth was led by non-oil sector's growth of 5.7% as the oil & gas recorded a growth of 1.7% (Chart 1-1). The high growth in non-oil sector helped to improve the share of non-oil sector in real GDP to 63% in 2022 from 62% in the previous year (Table 1-1, Charts 1-2).

Chart 1-1: Real GDP Growth Rate (%)



Source: Planning and Statistics Authority, Qatar.

Table 1-1: Annual Real GDP at 2018 prices

| Economic Activity | 2020 | | | 2021* | | | 2022** | | |
|-------------------|----------------|--------------|--------------|----------------|--------------|------------|----------------|--------------|------------|
| | Value | Share | Y-o-Y (%) | Value | Share | Y-o-Y (%) | Value | Share | Y-o-Y (%) |
| Oil Sector | 250,661 | 38.7 | (2.0) | 249,950 | 38.0 | (0.3) | 254,289 | 37.1 | 1.7 |
| Non-Oil Sector | 397,366 | 61.3 | (4.5) | 408,620 | 62.0 | 2.8 | 431,999 | 62.9 | 5.7 |
| Real GDP | 648,027 | 100.0 | (3.6) | 658,570 | 100.0 | 1.6 | 686,288 | 100.0 | 4.2 |

* Revised;

* **Provisional/Preliminary

Source: Planning and Statistics Authority, Qatar

Chart 1.2 (a): Sectoral Share in Real GDP (2021)

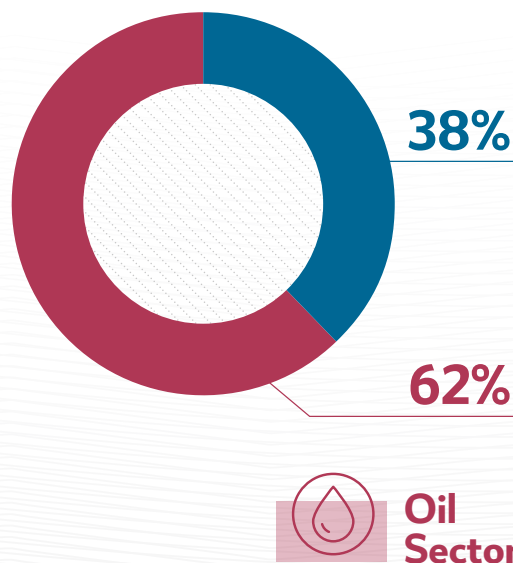
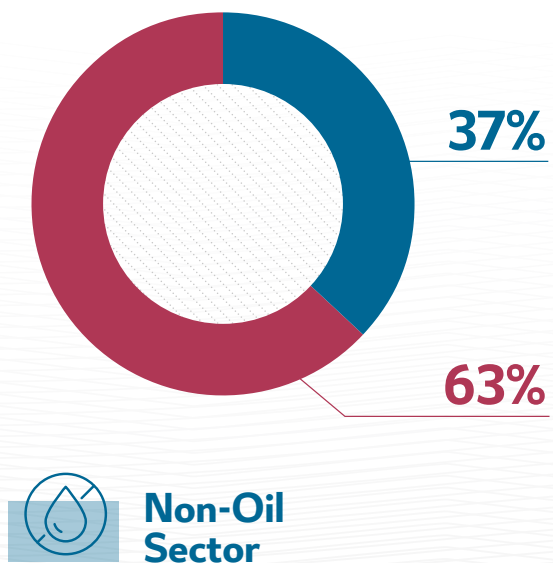


Chart 1.2(b): Sectoral Share in Real GDP (2022)



Source: Planning and Statistics Authority, Qatar

There was an overall accelerating trend in the year-on-year growth in each of the quarters in 2022 from 2.3% in Q1 to 6.2% in Q4. This acceleration in growth was observed in both the oil & gas and non-oil sectors. While the oil & gas growth accelerated from (-) 1.8% in Q1 to 4.8% in Q4, the non-oil sectors accelerated from 4.5% in Q1 to 7.0% in Q4 (Table 1-2).

The high growth witnessed in the non-hydrocarbon sector was bolstered by the FIFA World Cup in Nov-Dec 2022. In the run up to the FIFA World Cup, various segments of the non-oil sector witnessed significant growth in economic activity, which helped augment the contribution of non-oil sector to GDP growth. For instance, it is notable that during 2022, a few unconventional sectors such as transportation and storage, information and communication, accommodation & food services and activities of households as employers, which have relatively smaller shares of 3.8%, 1.8%, 0.9%, and 0.7% respectively, experienced a great leap growth-wise due to considerable boost received in the context of the FIFA World Cup that took place in Q4-2022.

Table 1-2: Quarterly Real GDP (at 2018 prices) in 2022*

| Economic Activity | Q1 | | | Q2 | | | Q3 | | | Q4 | | | Total | | |
|--------------------|----------------|------------|------------|----------------|------------|-----------|----------------|------------|------------|----------------|------------|------------|----------------|------------|------------|
| | Value | Share (%) | Y-o-Y (%) | Value | Share (%) | Y-o-Y (%) | Value | Share (%) | Y-o-Y (%) | Value | Share (%) | Y-o-Y (%) | Value | Share (%) | Y-o-Y (%) |
| Oil & Gas | 61,856 | 37.4 | -1.8 | 63,884 | 37.9 | 1.2 | 64,370 | 36.7 | 2.7 | 64,180 | 36.3 | 4.8 | 254,289 | 37.1 | 1.7 |
| Non-Oil Sectors | 103,744 | 62.6 | 4.5 | 104,590 | 62.1 | 5.9 | 110,830 | 63.3 | 5.5 | 112,835 | 63.7 | 7 | 431,999 | 62.9 | 5.7 |
| Total Grand | 165,600 | 100 | 2.3 | 168,474 | 100 | 4 | 175,200 | 100 | 4.4 | 177,015 | 100 | 6.2 | 686,288 | 100 | 4.2 |

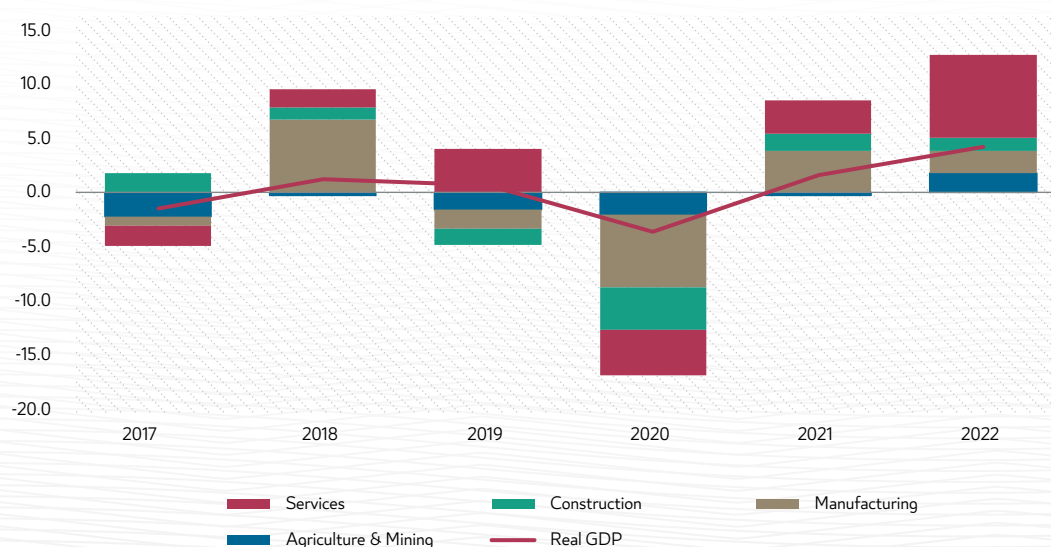
*Provisional/Preliminary

Source: Planning and Statistics Authority, Qatar

Supply Side Contributors to Real GDP

From the supply side, in terms of real GDP, services sector was the major contributor, followed by manufacturing, agriculture and mining sectors (Chart 1-3). Development of services sector could be partially due to ongoing efforts by the government for promoting tourism activities in the country, especially during the FIFA World Cup 2022, and they fit well with the overall diversification-based development plan of Qatar.

Chart 1-3: Contributions to Real GDP Growth (In Percent)



Source: Planning and Statistics Authority, Qatar

Expansion in oil & gas was enabled by increased utilization of production capacity. With regard to non-oil sectors growth, several sectors related to the FIFA World Cup 2022 activities grew at a rapid pace, and more notably in Q4 when the event took place.

Besides greater diversification of the non-oil sector, two development stands out. The first is related to the decline in share and growth rates of key sectors such as construction, and financial and insurance activities during 2022. Growth in construction sector, which contributes the highest share in non-oil GDP slowed down to 1.2% in 2022 from 1.6% in 2021. The slowdown in construction activities is most likely due to the completion of the FIFA World Cup related works. Financial and insurance activities, which is the second most important non-oil sector declined by 0.7% during 2022, denoting a sharp fall from 7% growth witnessed in 2021. Given the large share of these two sectors within real GDP, their deceleration warrants policy attention.

Secondly, some non-oil subsectors, which have relatively smaller shares, witnessed double digits growth. Information and Communication grew by 11.1% during the year compared to 5.3% in 2021, while Wholesale and Retail Trade expanded by 11.8% compared to 3.1% in 2021. Households as employers grew rapidly by 24.4%, which is a turnaround from negative growth in the previous two years. Transportation and Storage registered strong growth of 26.1% in 2022 from 11.1% in 2021.

Table 1-3: Selected Non-oil Sectors' Contribution to Real GDP Growth (Value in QR Million, share in %)

| Economic Activity | 2020 | | | 2021 | | | 2022 | | |
|--|---------|-------|-----------|---------|-------|-----------|---------|-------------|-----------|
| | Value | Share | Y-o-Y (%) | Value | Share | Y-o-Y (%) | Value | Share | Y-o-Y (%) |
| Construction | 78,142 | 12.1 | -3.9 | 79,397 | 12.1 | 1.6 | 80,312 | 11.7 | 1.2 |
| Financial and insurance activities | 54,954 | 8.5 | 6.9 | 58,779 | 8.9 | 7.0 | 58,388 | 8.5 | -0.7 |
| Public administration; compulsory social security | 53,188 | 8.2 | 2.9 | 53,104 | 8.1 | -0.2 | 53,858 | 7.8 | 1.4 |
| Manufacturing | 50,401 | 7.8 | -6.7 | 52,353 | 7.9 | 3.9 | 53,464 | 7.8 | 2.1 |
| Wholesale and retail trade; repair of motor vehicles and motorcycles | 45,338 | 7.0 | -8.6 | 46,741 | 7.1 | 3.1 | 52,233 | 7.6 | 11.8 |
| Real estate activities | 43,398 | 6.7 | 0.4 | 44,374 | 6.7 | 2.2 | 47,657 | 6.9 | 7.4 |
| Transportation and storage | 18,749 | 2.9 | -27.1 | 20,829 | 3.2 | 11.1 | 26,276 | 3.8 | 26.1 |
| Professional, scientific and technical activities and Administrative and support service activities | 19,629 | 3.0 | -6.6 | 20,017 | 3.0 | 2.0 | 21,953 | 3.2 | 9.7 |
| Human health and social work activities | 13,749 | 2.1 | 3.2 | 13,618 | 2.1 | -1.0 | 13,828 | 2.0 | 1.5 |
| Information and communication | 10,417 | 1.6 | 2.0 | 10,973 | 1.7 | 5.3 | 12,196 | 1.8 | 11.1 |
| Education | 11,738 | 1.8 | 0.3 | 11,583 | 1.8 | -1.3 | 11,782 | 1.7 | 1.7 |
| Arts, entertainment and recreation. Other service activities | 8,173 | 1.3 | -5.8 | 8,406 | 1.3 | 2.8 | 8,551 | 1.2 | 1.7 |
| Electricity, gas, steam and air conditioning supply; Water supply, sewerage, waste management and remediation activities | 5,455 | 0.8 | 0.7 | 5,517 | 0.8 | 1.1 | 5,692 | 0.8 | 3.2 |
| Accommodation and food service activities | 4,552 | 0.7 | -20.2 | 5,437 | 0.8 | 19.4 | 5,655 | 0.8 | 4.0 |
| Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use | 3,940 | 0.6 | -7.3 | 3,674 | 0.6 | -6.7 | 4,569 | 0.7 | 24.4 |
| Import duties | 3,170 | 0.5 | -9.2 | 3,342 | 0.5 | 5.4 | 4,032 | 0.6 | 20.7 |
| Agriculture & Fishing | 1,777 | 0.3 | 4.6 | 1,785 | 0.3 | 0.5 | 1,922 | 0.3 | 7.7 |
| Financial Services Indirectly Measured (FISIM) | -29,403 | -4.5 | 11.2 | -31,310 | -4.8 | 6.5 | -30,369 | -4.4 | -3.0 |

Source: Planning and Statistics Authority, Qatar.

Diversification of Economic Activities

Qatar National Vision 2030 (QNV2030) envisages the transformation of Qatar into a diversified economy that gradually reduces its dependence on hydrocarbon industries and the development of a knowledge based economy. Since the ratification of the QNV 2030 in 2008, Qatar has made enormous progress in furthering both these goals. The share of hydrocarbon sector & non-hydrocarbon sector in real GDP used to be around 55% and 45% respectively in 2008. However, as of 2022, the share of hydrocarbon sector shrank to around 37%, while non-hydrocarbon accounted for 63% of real GDP (Table1-1). Construction, financial services, wholesale and retail trade and real estate are the key non-hydrocarbon sectors that drive economic growth in Qatar.

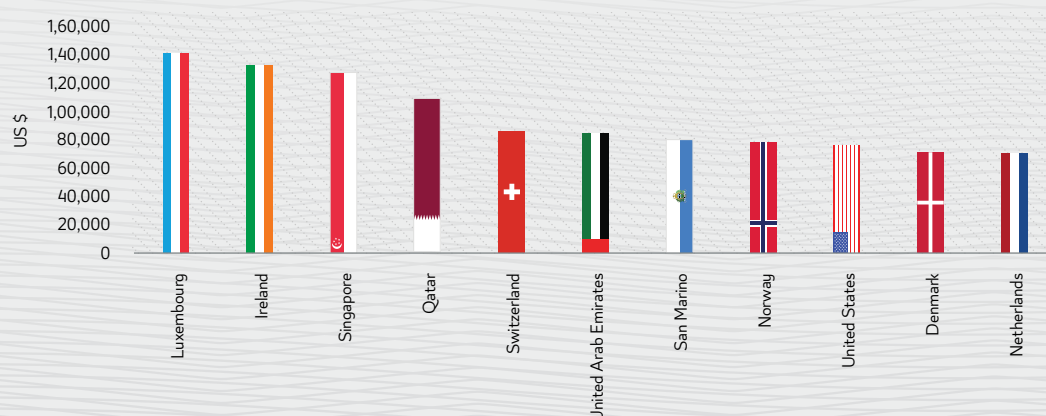
Going forward, private sector is likely to play a pivotal role in driving non-hydrocarbon growth in Qatar by enhancing productivity, competitiveness, and diversification. Several measures have been taken to promote SMEs in the private sector. As a result, they accounted for almost 97% of registered private sector companies as well as 15-17% of the non-oil GDP.¹

Also, Qatar has been at the forefront of harnessing information technology tools such as cloud computing and Artificial Intelligence (AI) as well as creating an enabling environment for the digital ecosystem. As a consequence, numerous fintech start-ups are setting up base in Qatar. Qatar was placed ninth in the Global Islamic Fintech Index due to its rapidly growing fintech ecosystem.² Additionally, 2022 also witnessed major IT companies like Google Cloud and Microsoft launching their regional digital hubs in Qatar, so as collaborate in sectors such as artificial intelligence, data science and blockchain.³ These enterprises will further enhance diversification efforts by projecting Qatar as an attractive investment destination. In view of the growing importance attached to diversification, Box 1.1 summarizes Qatar's futuristic growth outlook and policies.

Box 1.1 Qatar's GDP Growth

In terms of per capita GDP, Qatar was placed among the top countries in 2022 (Chart 1). In the World Competitiveness Yearbook 2023, the State of Qatar's rank improved to 12th place (from 18th place) out of 64 countries, most of which are developed nations. Some of the areas where Qatar ranked highly in the report, included economic performance (ranked 5), government efficiency (ranked 4), and business efficiency (ranked 12). Even though, the economic downturn in 2022 was a global phenomenon, Qatar emerged largely unaffected by it.

Box Chart 1: GDP Percapita Country Rankings 2022
(Unit: PPP, international dollars percapita)



Source: IMF World Economic Outlook, October 2023

1 Oxford Business Group: The Report: Qatar 2022

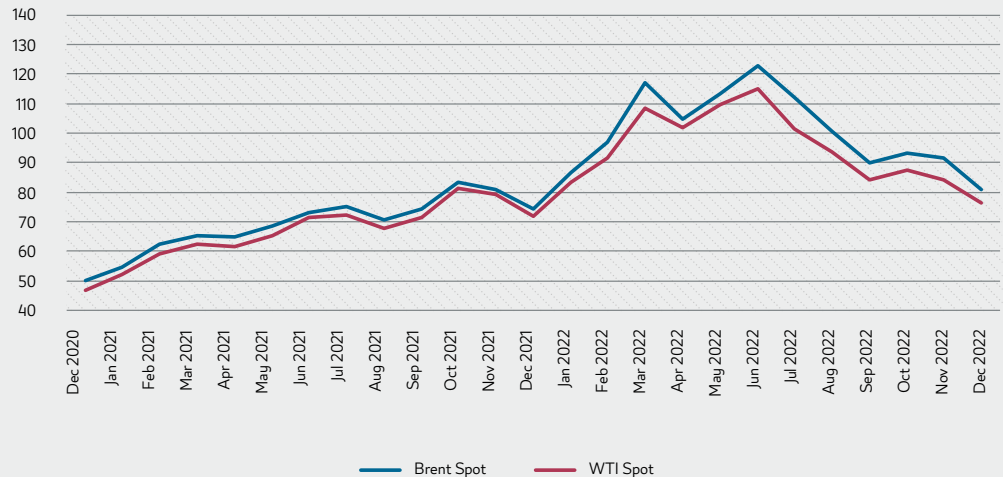
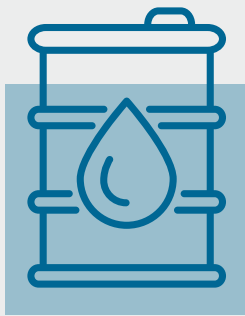
2 Source: Global Islamic Fintech Report 2022.

3 Source: QFC website, news.



The major factors that were responsible for Qatar's better economic performances vis-à-vis the rest of the world in 2022 were the increasing oil and gas prices, as well as a rise in economic activity connected to the FIFA World Cup 2022 (Chart 2).

Box Chart 2: Crude Oil Prices in 2022 (US\$ per Barrel)



Source: Bloomberg

The significant growth in budget and current account surpluses in 2022 improved domestic financial conditions, which indirectly contributed to economic activities. The other factors, as highlighted in the World Competitiveness Yearbook, were government efficiency, business efficiency and improved infrastructure that have helped Qatar's economic expansions.

In the post-FIFA World Cup scenario, the hydrocarbon sector is expected to emerge as the key driver to economic growth going forward on account of the huge investments directed to the North Field expansion project. Further, it is expected that the expansion of the hydrocarbon industry would via its linkages spur growth in the non-hydrocarbon sector as well, particularly in businesses directly related to the mining sector.

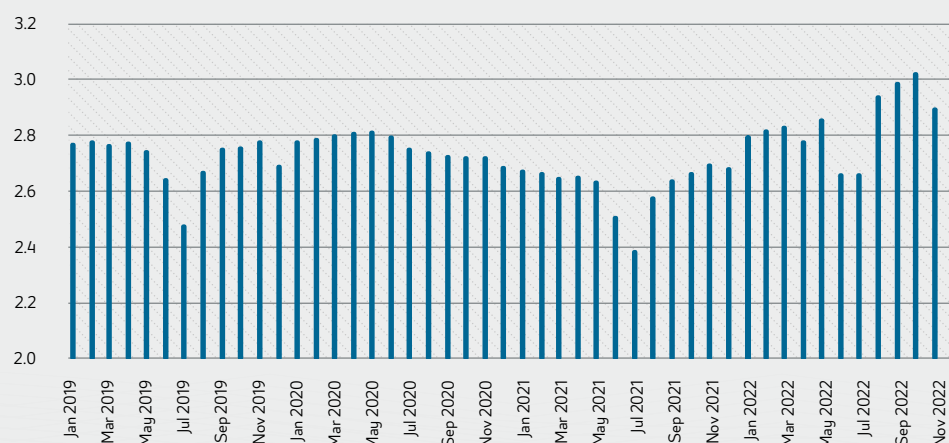
Manufacturing, transportation and storage, wholesale and retail commerce, and tourism-related industries such as lodging and food service are significant non-oil sectors with the ability to create meaningful economic growth in 2023 and beyond.

Furthermore, boosted by the global visibility brought by the 2022 FIFA World Cup, tourism is projected to increase, and events like Doha Expo 2023 contribute to short-term economic improvements. As indicated in the Qatar National Tourism Sector Strategy 2030, tourism has enormous potential to become a major contributor to GDP.

The ongoing government policy, the Third National Development Strategy and the Qatar National Vision 2030 will likely support the broad-based developments of the hydrocarbon sector, promote private sector activity, and diversify the economy. In this regard productive usage of the infrastructure created during the FIFA World Cup (for instance, the stadiums) could play an important role. The government's proactive steps would ensure financial, government, education, health, and e-commerce services going forward. It will also encourage growth in non-oil industries that are closely related to mining, such as logistics, transportation, and manufacturing. The abolishment of the Kafala system and other supplemental reforms are likely to enhance the protection and labour market mobility of expatriate workers (IMF 2022).

Qatar has one of the lowest unemployment rates in the world. On the other hand, education spending per student in Qatar is among the highest in the world. Ongoing reform measures in the education system and active labour market policies could lead to further improvements in human capital in Qatar (IMF 2022). Furthermore, population expansion (Chart 3) and rich human capital developments will in turn support and promote growth in service sectors, e.g., education, and health care, among others. With Qatar's high female human capital, there is a potential that female labour force participation could help boost labour productivity and economic activities in the country (IMF 2022).

Box Chart 3: Population (Million)



Source: Planning and Statistics Authority, Qatar

In contrast to the worldwide trend, Qatar's real GDP growth improved strongly in 2022 despite the global policy rate hikes. Following the FIFA World Cup in 2022, some deceleration in GDP growth is projected due to slack in economic activity and large base effects. The recent IMF Article IV review (2023) noted that Qatar's output is expected to expand by about 1% per cent per annum during 2023–25 with the non-hydrocarbon sector growing at 2% per cent driven by domestic demand. Despite this, the overall economic forecast for Qatar remains strong. Real GDP growth is likely to accelerate as a result of strong domestic demand and the ongoing LNG expansion. Supported by conducive government policies, physical and digital infrastructures, and human capital developments, growth in the hydrocarbon sector is likely to trickle down the non-hydrocarbon sectors, up-stream and down-stream industries across the supply chain, and help diversify Qatar's economic activities going forward.

Reference:

IMF, 2022, Article IV

IMF, 2023, Article IV Review

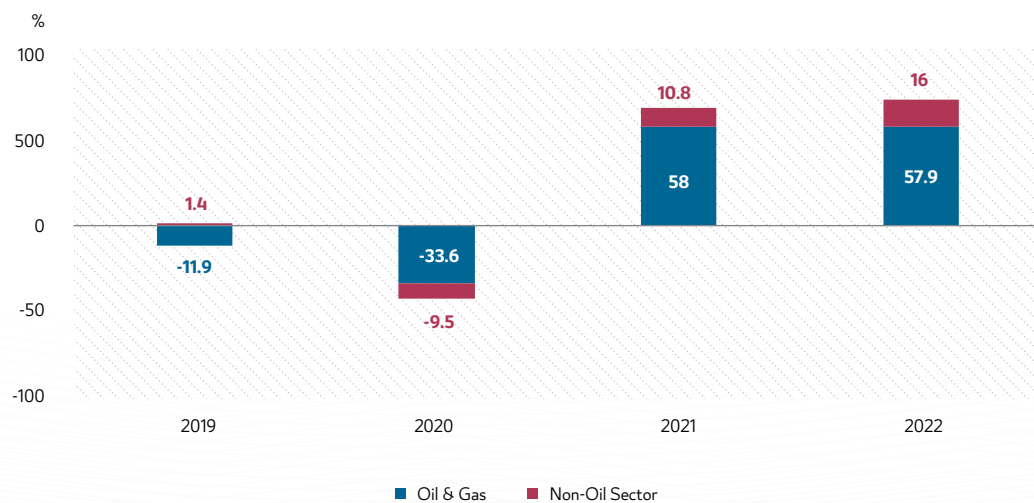
IMD, 2023, World Competitiveness Yearbook

Nominal Gross Domestic Product

Nominal GDP is important for an economy highly dependent on exports of commodities. Importantly, the price of exported commodity influences exports receipts and government revenues, which in turn can influence real activities via government expenditures.

In 2022, nominal GDP grew by 31.5%, far higher than the real GDP growth of 4.7% in 2022 and the nominal GDP growth of 24.5% in 2021. Understandably, the increase in energy prices since 2021 due to the supply-demand mismatch—further aggravated by war in Ukraine—was the primary factor for the high growth in nominal GDP in 2022 (Chart 1-4).

Chart 1-4: Nominal GDP Growth Rates (%)



Source: Planning and Statistics Authority, Qatar

Oil and gas sector in nominal terms expanded by 57.9% in 2022, almost the same as in 2021. Non-oil sectors, expanded at a much slower pace of 16.0% in 2022, but higher than 10.8% in 2021 (Chart 1-4). Thus, the share of oil & gas in total nominal GDP in 2022 markedly increased further to 44.0% from 37.0% in 2021, with a corresponding decline in the share of non-oil sectors.

Growth in year-on-year nominal GDP increased in Q1 and Q2, largely driven by oil & gas, as oil and gas prices continued to rise till June 2022, before subsiding thereafter. It accelerated from 32.7% in Q1 to 38.1% in Q2, before moderating to 31.3% and 24.6% respectively, in Q3 and Q4, (Table 1-4).

Table 1-4: Quarterly Nominal GDP in 2022*

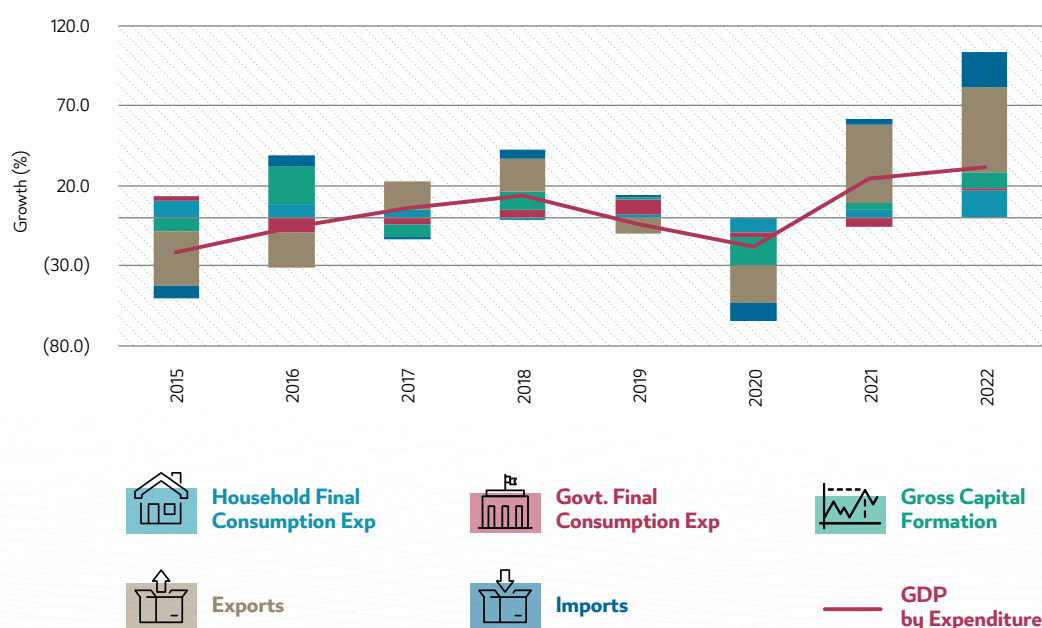
| Economic Activity | Q1 | | | Q2 | | | Q3 | | | Q4 | | | Total | | |
|--------------------|----------------|--------------|-------------|----------------|--------------|-------------|----------------|--------------|-------------|----------------|--------------|-------------|----------------|--------------|-------------|
| | Value | Share (%) | Y-o-Y (%) | Value | Share (%) | Y-o-Y (%) | Value | Share (%) | Y-o-Y (%) | Value | Share (%) | Y-o-Y (%) | Value | Share (%) | Y-o-Y (%) |
| Oil & Gas | 84,167 | 42.8 | 62.5 | 98,086 | 45.4 | 70.6 | 106,760 | 46.5 | 57.4 | 91,248 | 41.9 | 43.4 | 380,261 | 44.2 | 57.9 |
| Non-Oil Sectors | 112,643 | 57.2 | 16.7 | 117,944 | 54.6 | 19.2 | 122,797 | 53.5 | 14.8 | 126,335 | 58.1 | 13.8 | 479,719 | 55.8 | 16.0 |
| Total Grand | 196,811 | 100.0 | 32.7 | 216,029 | 100.0 | 38.1 | 229,557 | 100.0 | 31.3 | 217,583 | 100.0 | 24.6 | 859,980 | 100.0 | 31.5 |

*Provisional/Preliminary

Source: Planning and Statistics Authority, Qatar

In terms of breakdown of nominal GDP, exports emerge as the major contributor along expected lines. However, a deep dive into the contributors during 2022 underlines the importance of consumption and gross fixed capital formation. While these indicates the increase in consumption and investment demands during the FIFA World Cup 2022, the infrastructure built and the new technological innovations could increase sustainability and further potential to attract the visitors and investors in Qatar in the years to come (Chart 1-5).

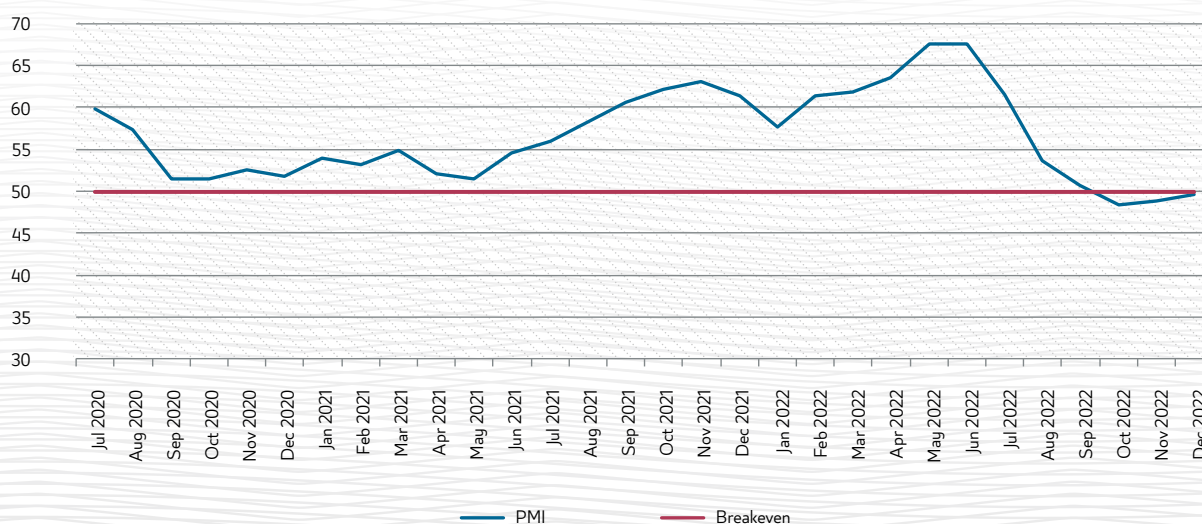
Chart 1-5: Contribution to Real GDP by Expenditure Method



Source: Planning and Statistics Authority, Qatar.

The increase in investment and positive investors sentiments during 2022 are evident from Purchasing Managers Index which has been largely expansionary (Chart 1-6).

Chart 1-6: Purchasing Managers' Index

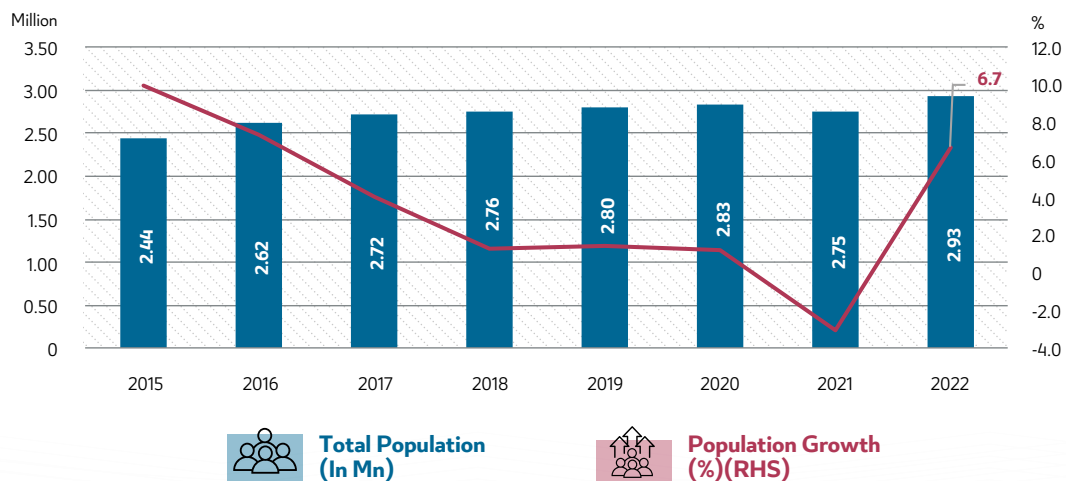


Source: Qatar Financial Centre

Population and Labour Force

Qatar's total population expanded to 2.93 Million persons in 2022, which is 6.7% higher than 2.75 Million in 2021. The hosting of FIFA World Cup in December 2022, was a key factor that stimulated this high population growth. The timely completion of all the projects related to the FIFA World Cup necessitated huge influx of foreign labour into the country during the year.

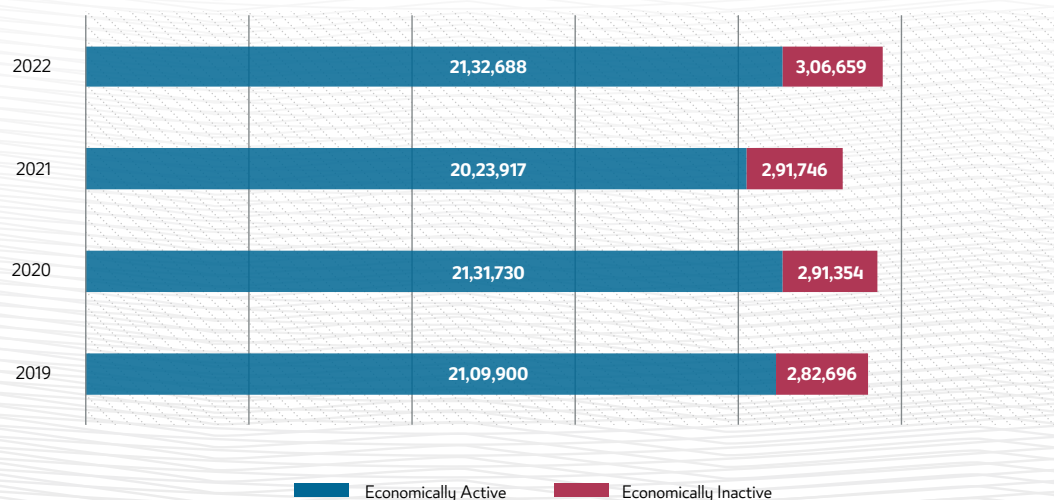
Chart 1-7: Qatar's Population Growth



Source: Planning and Statistics Authority, Qatar

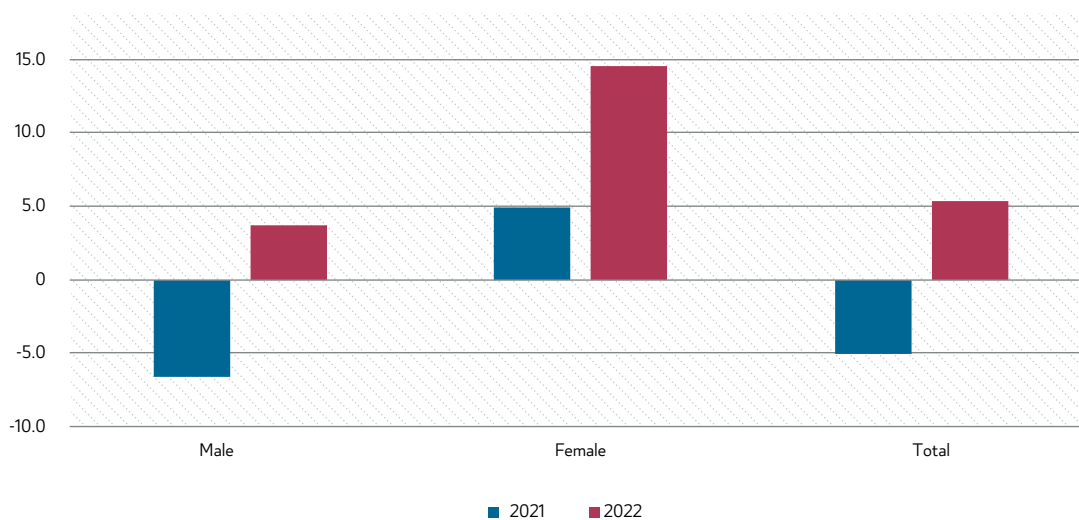
Along with the population growth, Qatar's labour force too has witnessed significant growth over the years. Labour force grew by 5.3% in 2022, which is a major improvement over 2021, when labour force had shrunk by 4.4%. Economically active population grew by 5.4% during the year, thus enabling the labour force participation rate to be 87.4%. As a country dependent on migrant labour force, Qatar is keen to attract and retain highly skilled labour force. To this end, the country has been introducing numerous reforms to project Qatar as an attractive employment destination. During 2022, the economically active expatriate labour force expanded by 5.4%

Chart 1-8: Qatar's Labour Force



Source: Planning and Statistics Authority, Qatar

Chart 1-9: Economically Active Population Growth by Gender (%)



Source: Planning and Statistics Authority, Qatar

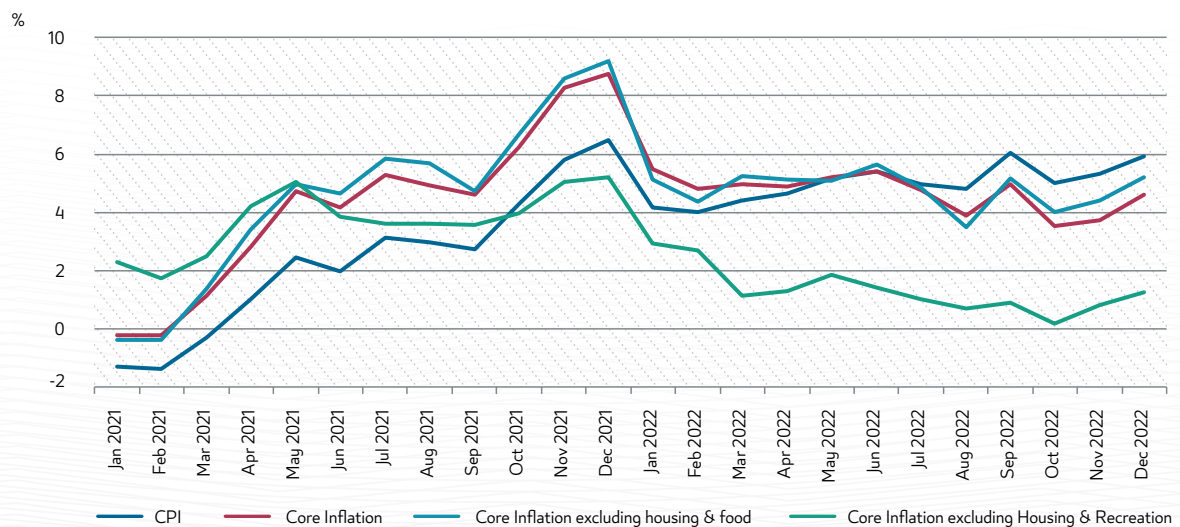
During 2022, economically active female population growth witnessed a significant leap by 14.5%, which reflects the numerous pro-active measures taken by the government to encourage women to participate in the labour force.

Section 2: Inflation

Inflation in Qatar

The strong economic growth in 2022 was accompanied by an increase in the inflation rate in Qatar. On an annual average basis, the CPI increased from 98.8 in 2021 to 103.7 in 2022 – i.e., an increase of 5.0% as compared with an increase of 2.3% a year ago (Chart 2-1). Even though the CPI inflation in Qatar increased in 2022, it was lower than those recorded in several advanced economies (AEs). All the components of the CPI index increased in 2022 except health, communication, and tobacco, which remained flat (Table 2-1). The average CPI inflation increased in 2022 mainly due to strong domestic economic recovery, a surge in demand for travel following the relaxation of travel restrictions imposed during the COVID pandemic, an increase in international food and energy prices and a sharp increase in housing rent due to the FIFA World Cup 2022.

Chart 2-1: Headline and Core CPI Inflation Rate for Qatar Y-o-Y (%)



Source: Planning and Statistics Authority, Qatar

Core Inflation

Underlying inflationary pressures may be better understood by the core inflation based on the exclusion method, which removes the volatile components in Qatar's headline inflation. The average core inflation of 4.7% in 2022 was less than the average headline CPI inflation of 5.0%, as core inflation excludes the "Housing, Water, & Electricity" component, which was one of the major drivers of inflation in Qatar, particularly in the second half of 2022. Thus, core inflation, which remained above the headline inflation in the first half of 2022, notably fell below since July, indicating a lowering of underlying inflation (Chart 2-1).

In order to further understand underlying inflationary pressures, other volatile components such as food & beverages and recreation & culture prices were also removed from the core CPI index. The core inflation is significantly lower when recreation and culture is excluded, with an annual inflation rate of 1.3%. This clearly shows the role of recreation group in pushing headline inflation up in 2022.

Table 2-1: Consumer Price Index – Annual Averages (2018=100)

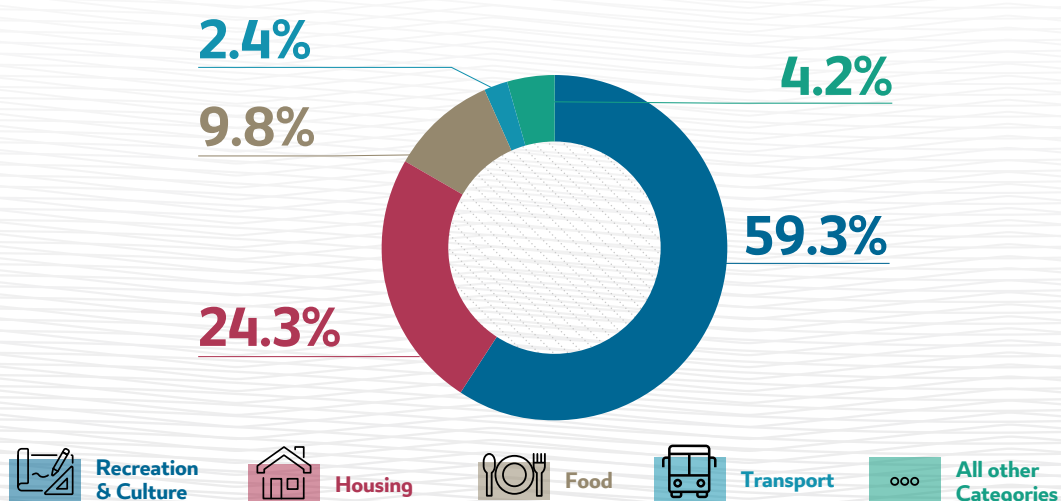
| | Weights | 2020 | 2021 | 2022 | Annual Inflation (%) | |
|--|------------|-------------|-------------|--------------|----------------------|------------|
| | | | | | 2021 | 2022 |
| General Index (CPI) | 100 | 96.6 | 98.8 | 103.7 | 2.3 | 5.0 |
| Food & Non-alcoholic Beverages | 13.45 | 100.2 | 102.9 | 107.0 | 2.7 | 4.0 |
| Tobacco | 0.28 | 244.4 | 246.0 | 246.0 | 0.6 | 0.0 |
| Clothing & Footwear | 5.58 | 94.5 | 92.0 | 92.6 | -2.7 | 0.7 |
| Housing, Water, Electricity, Gas & Other Fuels | 21.17 | 92.7 | 88.0 | 93.6 | -5.1 | 6.4 |
| Furnishing, Household Equipment | 7.88 | 101.0 | 104.1 | 105.2 | 3.0 | 1.1 |
| Health | 2.65 | 101.8 | 101.3 | 98.3 | -0.5 | -3.0 |
| Transport | 14.59 | 98.6 | 108.5 | 109.4 | 10.0 | 0.8 |
| Communication | 5.23 | 90.9 | 93.0 | 92.4 | 2.2 | -0.6 |
| Recreation & Culture | 11.13 | 78.5 | 84.7 | 109.8 | 7.9 | 29.6 |
| Education | 5.78 | 107.3 | 110.5 | 111.2 | 3.0 | 0.6 |
| Restaurants & Hotels | 6.61 | 103.9 | 107.2 | 108.6 | 3.1 | 1.3 |
| Miscellaneous Goods & Services | 5.65 | 104.1 | 106.8 | 108.6 | 2.7 | 1.7 |

Source: Planning and Statistics Authority, Qatar

Major Factors influencing the CPI Inflation in Qatar:

The increase in inflation in 2022 was mainly due to three components, viz., “Housing, Water, & Electricity,” “Recreation & Culture,” and “Food & Beverages” (Chart 2-2). On the other hand, the lower pass-through of higher imported prices due to the appreciation of the dollar index in 2022 over 2021, and the price cap on fuel, etc., have helped to lower the inflation in Qatar.

Chart 2-2: Percentage Contribution to Annual headline inflation (2022) %



Source: Calculations based on data from Planning and Statistics Authority, Qatar

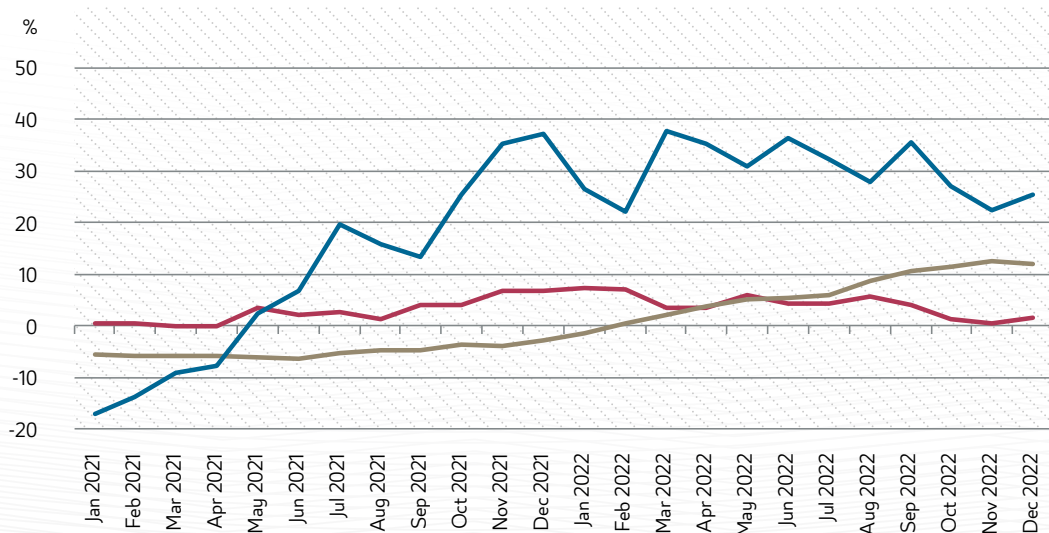
a) Food and Beverage Prices

The food inflation, on an average, was around 4.0% in 2022, despite high food prices in the international markets (Chart 2-3). The primary measure that helped to contain food inflation within manageable levels was the “National Food Security Strategy” programme, under which the government took a strategic rapid action plan to meet the local market needs of grain and wheat from multiple sources. In Q4-2022, the food inflation declined sharply to an average of 1.1%, aided by the decline in international food prices.

b) Housing, Water, & Electricity

The Housing, Water, & Electricity component turned from a marked deflation of 5.1% in 2021 to a significant inflation of 6.4% in 2022, mainly due to an increase in the housing rent segment (Chart 2-3). The major sub-component house rent increased significantly from a deflation of 1.6% in January to a peak increase of around 14.1% in November before declining marginally to 13.4% in December. Rent for housing increased substantially because of the significant increase in demand due to the massive inflow of visitors during the FIFA World Cup, which outweighed the supply of housing units.

Chart 2-3: Key Drivers of Inflation Rate for Qatar Y-o-Y (%)



Food
& Beverage



Housing, Water,
Electricity & Gas



Recreation
& Culture

Source: Planning and Statistics Authority, Qatar

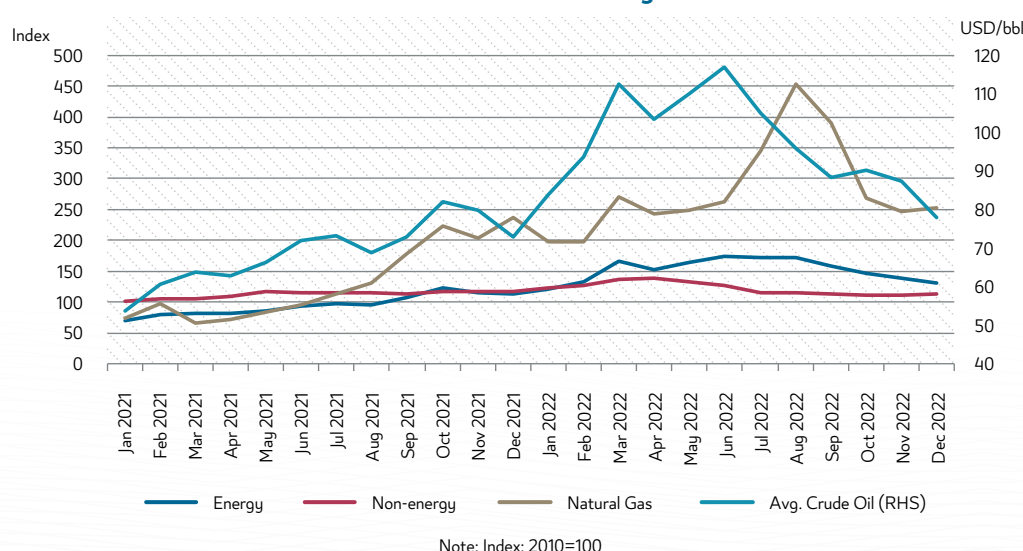
c) Recreation & Culture

The recreation & culture basket mainly comprises tourism expenses (holiday packages), accounting for 81.6% of the total weight of the basket. Tourism expenses have increased substantially due to higher aviation fuel costs, substantial pent-up demand for air travel after two years of lockdown, and higher demand for air travel due to the FIFA World Cup. As a result, the overall Recreation & Culture component increased by 29.6% (Chart 2-3).

Commodity Prices

The domestic CPI inflation is influenced by fluctuations in the global prices of goods and commodities imported by Qatar. Global commodity prices rose sharply in 2021 due to supply-demand mismatch following supply chain disruptions, and shift in demand pattern towards commodity intensive consumptions that continued for several months in 2022. Aggravated by war in Ukraine, energy prices increased till the third quarter of 2022, but declined thereafter as supply chain disruptions eased. During 2022, energy prices increased by 53.7% till August before subsiding to record an annual increase of 16.5%. Non-energy prices after increasing by 17.9% till April, subsided substantially to contract by 3.9% in December 2022 from December 2021 (Chart 2-4).

Chart 2-4: Global Commodity Prices



Source: World Bank and Refinitiv Eikon

Producer Price Index (PPI)

The producer price index (PPI) captures the average price changes in selling prices. It captures price pressures felt by producers of goods and services. On average, the PPI increased to 150.8 in 2022 from 105.1 in 2021, registering a growth of 43.5% (Table 2-2). The recovery in global commodity prices and domestic economic growth has positively affected the PPI in 2022. The PPI mining and quarrying group, having a weight of 82.46%, had increased from 103.8 in 2021 to 154.2 in 2022, registering a growth of 48.5%.

Table 2-2: Producer Price Index - Annual Averages (2018=100)

| Economic Activity | Weight | 2020 | 2021 | 2022 | Annual Change (%) | |
|-------------------------------|---------------|-------------|--------------|--------------|-------------------|-------------|
| | | | | | 2021 | 2022 |
| Overall Index | 100.00 | 63.5 | 105.1 | 150.8 | 65.5 | 43.5 |
| Mining and quarrying activity | 82.46 | 60.6 | 103.8 | 154.2 | 71.4 | 48.5 |
| Manufacturing activity | 15.85 | 74.9 | 111.6 | 138.1 | 49.1 | 23.7 |
| Electricity Supply | 1.16 | 99.0 | 102.0 | 104.3 | 3.1 | 2.2 |
| Water Supply | 0.53 | 103.1 | 119.0 | 113.9 | 15.4 | -4.3 |

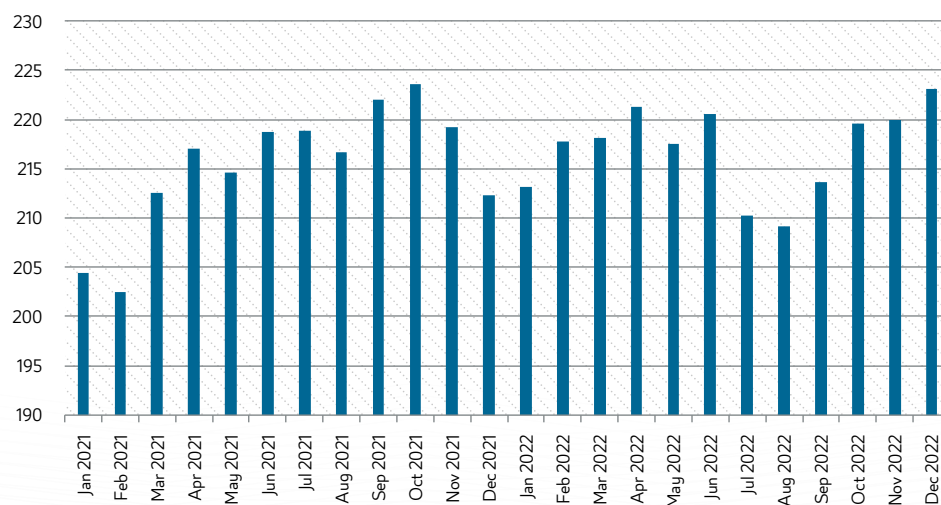
Source: Planning and Statistics Authority, Qatar



Real Estate Price Index

The real estate price index (REPI) analyses the inflation trend in Qatar's real estate sector, which remains an important sector in the Qatari economy. The REPI index increased in the first four months of 2022. It dipped in the next four months till August and again resumed a rising trend till the end of the year. Thus, REPI in December 2022 was higher by 5.1% from December 2021 when it rose by 2.1% from December 2020 (Chart 2-5).

Chart 2-5: Real Estate Price Index



Source: Qatar Central Bank

Global Inflation

Global inflation, particularly that of trading partners, has been one of the important drivers of inflation in Qatar that were transmitted through import prices. The global inflation increased in the first half of 2022, mainly due to the increase in commodity prices, particularly energy prices, which fed into retail inflation (CPI). In 2022, average CPI inflation in advanced economies (AEs) rose to 7.3% from 3.1% in 2021, while in EMDEs, it increased to 9.8% from 5.9% in 2021 (IMF WEO, October 2023) (Table 2-3).

Table 2-3: Global CPI Inflation Rate - Annual Averages (%)

| | 2020 | 2021 | 2022 |
|--|------|------|------|
| Advanced Economies | 0.7 | 3.1 | 7.3 |
| Euro Area | 0.3 | 2.6 | 8.4 |
| Japan | 0.0 | -0.2 | 2.5 |
| United Kingdom | 0.9 | 2.6 | 9.1 |
| United States | 1.3 | 4.7 | 8.0 |
| Emerging Market and Developing Economies (EMDEs) | 5.2 | 5.9 | 9.8 |
| Brazil | 3.2 | 8.3 | 9.3 |
| China | 2.5 | 0.9 | 1.9 |
| India | 6.2 | 5.5 | 6.7 |
| Indonesia | 2.0 | 1.6 | 4.2 |

Source: IMF WEO Database, October 2023

Inflation rate in the GCC region except Saudi Arabia has also increased during the 2022 in line with global inflation, mainly due to strong domestic recovery, higher food prices and supply side bottlenecks (Table 2-4).

Table 2-4: Annual Consumer Price Inflation in GCC Y-o-Y (%)

| | 2020 | 2021 | 2022 |
|----------------------|------|------|------|
| Bahrain | -2.3 | -0.6 | 3.6 |
| Kuwait | 2.1 | 3.4 | 4.0 |
| Oman | -0.9 | 1.5 | 2.8 |
| Saudi Arabia | 3.4 | 3.1 | 2.5 |
| United Arab Emirates | -2.1 | -0.1 | 4.8 |
| Qatar | -2.5 | 2.3 | 5.0 |

Source: IMF Regional Economic Outlook for the Middle East and Central Asia, October 2023

However, compared to that of the advanced economies, the increase in GCC inflation rate, including inflation rate in Qatar, was lower. Some of the factors that contributed to lower inflation rate than the advanced economies are lower pass-through of higher imported prices to GCC economy due to appreciation of dollar index and subsidies.

Inflation is expected to be moderate significantly in 2023 due to the following reasons. Firstly, slowdown in economic growth due to rate hikes would dampen aggregate demand. Secondly, imported inflation would decline as inflation in trading partners eases following policy rate hikes and softening in commodity prices. In 2023, food prices are expected to ease considerably as global food prices have been coming down rapidly since the beginning of second half of 2022. Thirdly, high prices in sectors linked to FIFA 2022 such as housing, transportation, and restaurants and hotels, are expected to subside considerably in 2023. The IMF has forecasted Qatar's inflation at 2.8% for 2023.

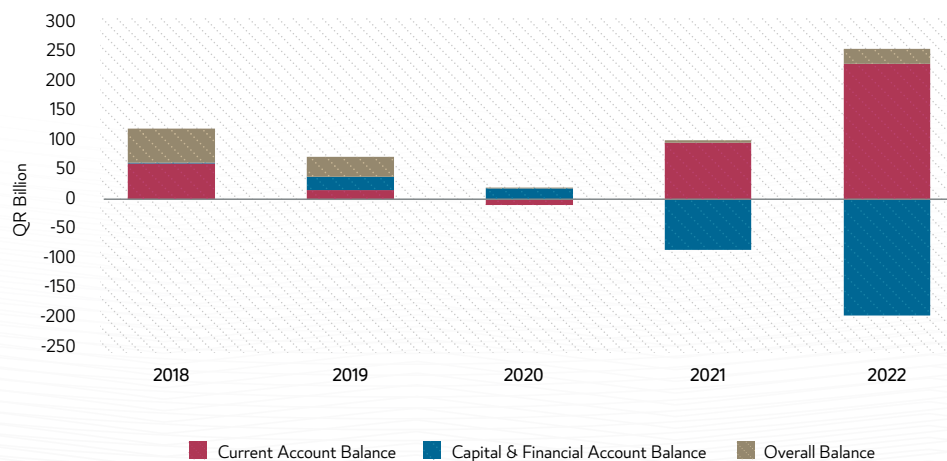


Section 3: External Sector

Balance of Payments

The FIFA World Cup 2022 had exerted a profound impact on transactions between Qatar's residents and non-residents, which got reflected in the year's Balance of Payments. Preliminary estimates of Balance of Payments (BoP) in 2022 show an overall surplus of 25.1 QR billion, which is the fifth year in a succession of recording surpluses, implying further accumulation of foreign exchange reserves. The overall BOP position was driven by the current account surplus, which offset the outflows in the capital & financial account (Chart 3-1).

Chart 3-1: Qatar's Balance of Payments



The current account balance as a percentage of GDP was at 26.7 percent in 2022, while the capital and financial account recorded -22.9 % in 2022. This was in line with the historic trend wherein merchandise trade balance has taken the role of being the primary driver for the surplus in the current account in Qatar (Chart-3.2).

Chart 3-2: A Snapshot Qatar's Balance to Payments (2021-2022)

Infographics on Qatar's Balance of Payments

2021

BOP
QAR 4.0bn
(surplus)

Current

QAR 95.8bn
(surplus)

Capital Account

QAR -0.5bn
(outflow)

Financial

QAR -85.2bn
(outflow)

2022

BOP
QAR 25.1bn
(surplus)

Current

QAR 229.7bn
(surplus)

Capital Account

QAR -0.80bn
(outflow)

Financial

QAR -196.7bn
(outflow)

Current Account



Goods
(surplus)
QAR 219.6bn



Services
(Net Payments)
QAR -58.2bn



Income
(Net Payments)
QAR -10.1bn



Current Transfers
(Net outgoing)
QAR -55.6bn



Goods
(surplus)
QAR 354.7bn



Services
(net payments)
QAR -37.4bn



Income
(net payments)
QAR -30.2bn



Current Transfers
(net outgoing)
QAR -57.4bn

Financial Account



Direct Invest.
(Outflow)
QAR -4.6bn



Portfolio Invest.
(Outflow)
QAR -44.3bn



Financial Deriv.
(Inflow)
QAR 1.3bn



Other Invest.
(Outflow)
QAR -37.6bn



Direct Invest.
(Outflow)
QAR -8.4bn



Portfolio Invest.
(Outflow)
QAR -44.2bn



Financial Deriv.
(Inflow)
QAR 0.8bn



Other Invest.
(Outflow)
QAR -144.8bn

Change in Reserves

QAR -4.0bn
(increase)

QAR -25.1bn
(increase)



Current Account

The current account recorded a huge surplus of 229.7 QR billion in 2022, increasing 2.4 times from 95.8 QR billion in 2021 (Table 3-1). An increase in trade surplus by 61.5% to 354.7 QR billion owing to a sharp increase in oil and gas prices drove this large increase in current account surplus (Table 3-1, full BoP Table in the Annex).

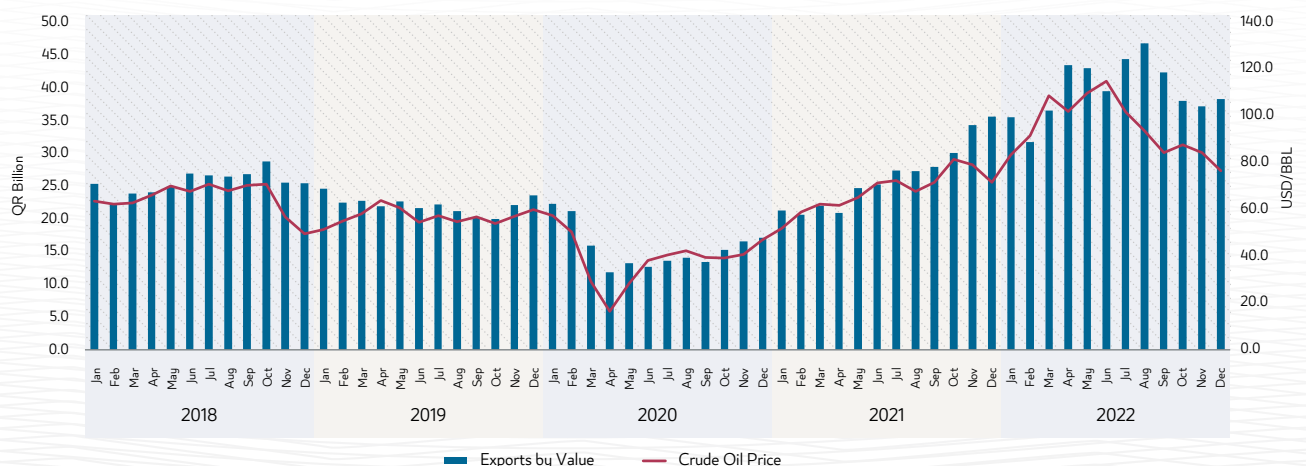
Table 3-1: Balance of Payments

| QR Million | | | |
|-----------------------------|--------------|--------------|---------------|
| ITEM | 2020 | 2021 | 2022 |
| Current Account | -10,868 | 95,802 | 229,749 |
| Capital & Financial Account | 17,458 | -85,729 | -197,494 |
| Overall Balance | 1,865 | 4,046 | 25,092 |

The increase in gas prices and other hydrocarbon prices during 2022 have contributed to the increase in export proceeds (Chart 3.3), while the imports have been mostly driven by the demands relating to the domestic economy and the FIFA World Cup 2022.

Within merchandise exports, all the components, barring re-exports, grew markedly with natural gas and oil exports expanding by 60.0% and 43.1%, respectively. Consequently, the share of oil and gas-related exports rose to 87.3% in 2022 (Table 3-2).

Chart 3-3: Exports by Value and WTI Crude Oil Price



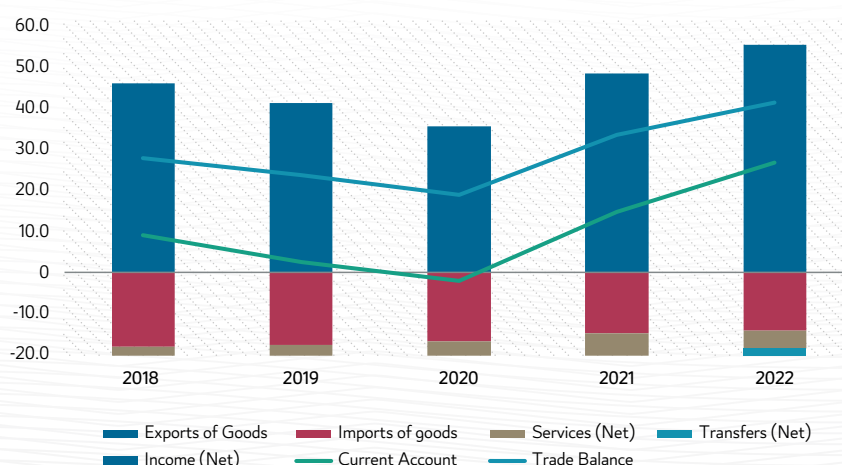
Source : Planning and Statistics Authority, Qatar & World Bank Pink Sheet.

Table 3-2: Trade Balance (Goods Account)

| ITEMS | QR Million | | |
|-------------------------------------|---------------|----------------|----------------|
| | 2020 | 2021 | 2022 |
| Exports (FOB) | 187,474 | 317,420 | 476,711 |
| Natural Gas (Including Condensates) | 115,146 | 194,317 | 310,866 |
| Oil | 38,235 | 73,579 | 105,260 |
| Other Exports | 23,674 | 39,278 | 50,312 |
| Re Exports | 10,419 | 10,246 | 10,273 |
| Imports (FOB) | -88,695 | -97,786 | -122,012 |
| Trade Balance | 98,779 | 219,634 | 354,699 |

Note: Imports are indicated in (-). Source: Qatar Central Bank

In terms of contribution to GDP, exports played the most dominant role which has been consistent over the year (Chart 3.4.a). An increase in merchandised exports by 50.2% to 476.7 QR billion significantly outpaced the increase in imports by 24.8% to 122.0 QR billion, leading to an increase in trade surplus.

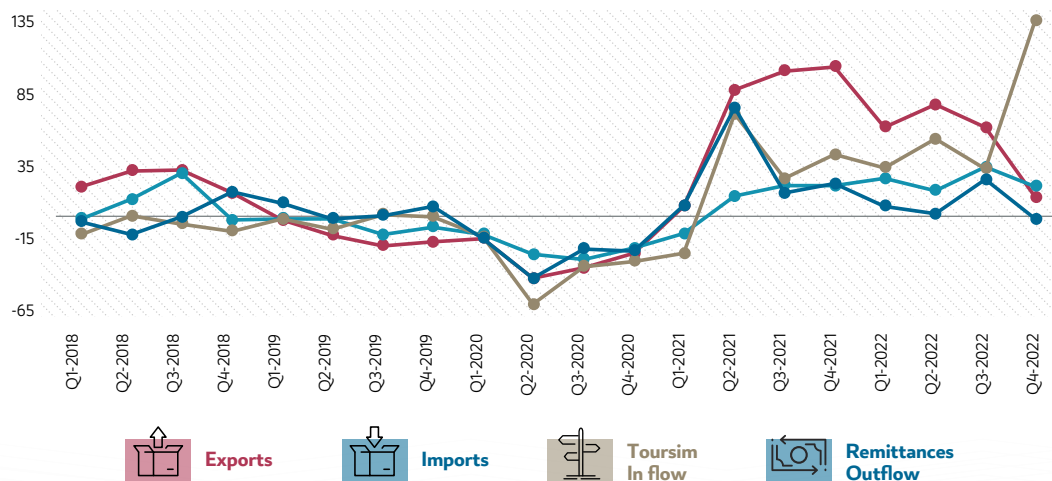
Chart 3-4 (a): Contribution to the Current Account (In Percent of GDP)

Source: Qatar Central Bank

The traditional deficits in services, income and current transfers accounts increased only marginally by 0.1% to 125.0 QR billion in 2022. However, there were significant divergences in the movement of these accounts in 2022. The deficit in services account declined sharply by 35.8% to 37.4 QR billion as receipts (credit) under 'travel' and 'transportation' show a huge increase in the third and fourth quarters due to the FIFA World Cup 2022. By contrast, the deficit in income account increased three-fold to 30.2 QR billion, as the investment income of non-residents increased far more than the investment income of residents from abroad. The deficit in the current transfers account grew by 3.3% to 57.4 QR billion.

In terms of quarterly data, the last quarter (Q4) 2022 is of significance due to the FIFA World Cup, when the tourism inflows surged to historic highs. This got reflected the net balance of services which reached lower deficit of 1.2 QR billion during the quarter as against the higher deficit of 15.5 QR billion reported during Q4 2021, mainly due to high receipts from the services sector especially travel and tourism supported by the hosting of mega event FIFA World Cup hosted during the quarter (Chart 3-4.b).

Chart 3-4 (b): Selected Components of Current Account Y-o-Y (%)



Source: Qatar Central Bank

Destinations of Exports and Origin of Imports

Asian region has been the principal destination of Qatar's exports and largely the first origin of Qatar's imports. In terms of country composition of exports, the oil importing countries were the major trading partners, which include China, India and South Korea (Chart 3-5.a). Besides China, major countries for Qatar's import included the USA, India, Italy and Germany in 2022 (Chart 3-5.b).

Chart 3-5 (a): Qatar's Exports by Destination

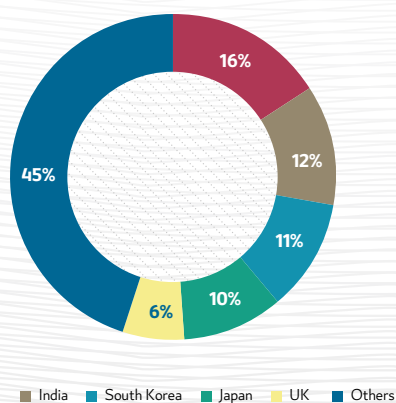
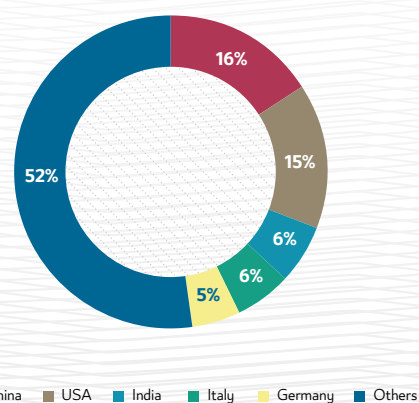


Chart 3-5 (b) Qatar's Imports by Destinations



Source: Planning and Statistics Authority, Qatar

Qatar's export to GCC countries was around 7% of its total export recorded in 2022. Imports from the GCC countries, which is around 5% of its total import, which recorded and increase in 2022 (Table 3-3).

Table 3-3: Destination of Exports and origin of Imports *

| | QR Million | | Share (%) | | Change (%) |
|-------------------------------|----------------|----------------|-----------|-------|------------|
| | 2021 | 2022 | 2021 | 2022 | 2022 |
| Exports | | | | | |
| Top Five Countries | 184,303 | 259,697 | 58.06 | 54.48 | 40.91 |
| GCC | 21,703 | 32,531 | 6.8 | 6.8 | 49.9 |
| Other Arab Countries | 1,993 | 1,988 | 0.6 | 0.4 | -0.3 |
| Other Countries | 109,421 | 182,495 | 34.5 | 38.3 | 66.8 |
| Total Exports | 317,420 | 476,711 | | | |
| Imports | | | | | |
| Top Five Countries | 47,065 | 59,161 | 46.2 | 48.55 | 25.7 |
| GCC | 3,431 | 6,581 | 3.4 | 5.4 | 91.8 |
| Other Arab Countries | 1,906 | 1,933 | 1.9 | 1.6 | 1.4 |
| Other Countries | 49,465 | 54,189 | 48.6 | 44.5 | 9.6 |
| Total Imports (C.I.F.) | 101,867 | 121,864 | | | |

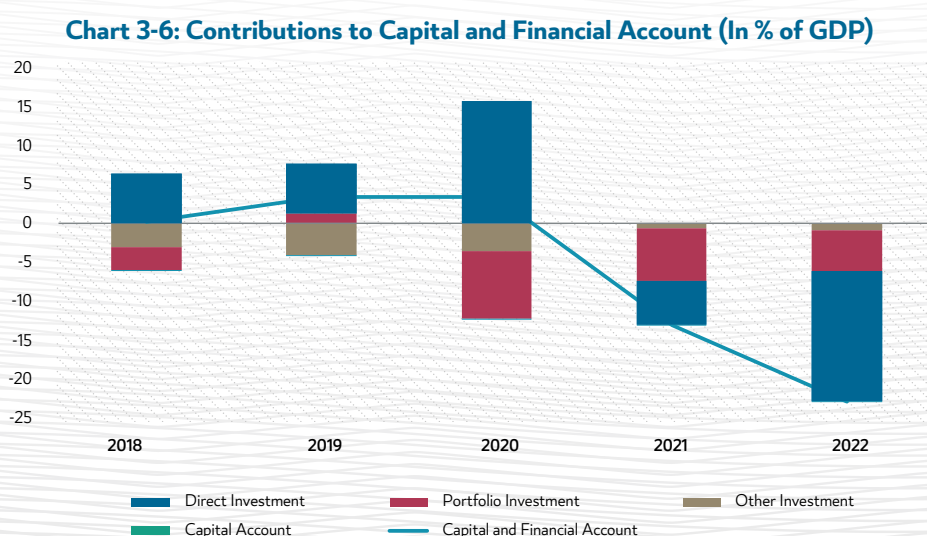
*Including Re-exports

Source: Planning and Statistics Authority, Qatar

Capital and Financial Account

Capital and financial account balance recorded deficit of 197.5 QR billion in 2022, more than double the deficit of 85.7 QR billion in 2021. The deficit in the financial account stood at 196.7 QR billion, while the deficit in the capital account was 0.8 QR billion. This deficit of 196.7 QR billion during 2022 in the financial account was primarily contributed by the deficit of 44.2 QR billion in the portfolio investment account and the deficit of 144.9 QR billion in the other investment account.

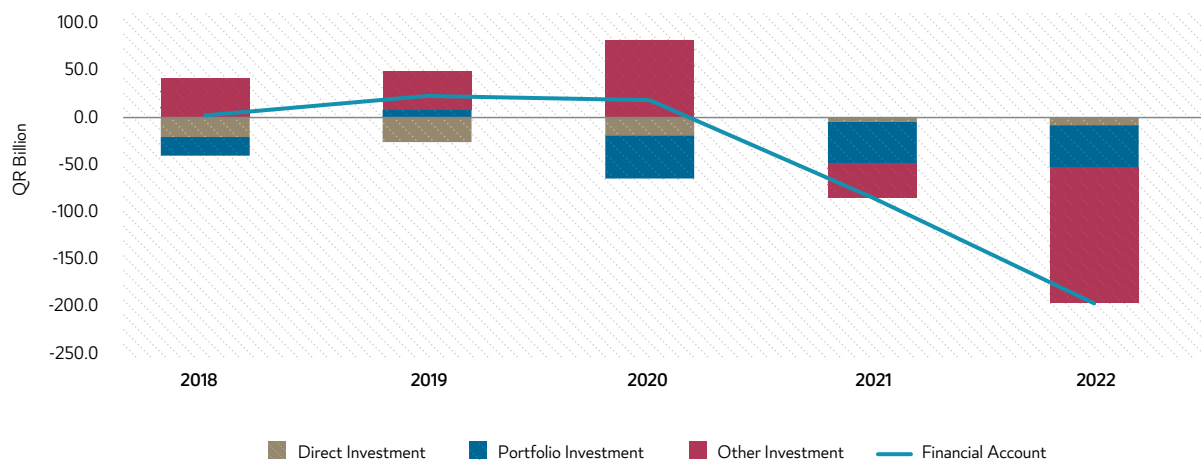
While investment abroad from the large surplus in the current account contributed to the major deficit in the portfolio investment account, significant increase in the deficit for the other investment account was primarily contributed by various macro prudential measures initiated by QCB to reduce banks reliance on shorter-term components of the external deposits. The key macro prudential measures initiated by QCB to reduce banks reliance on external funding were increase in reserve requirement and higher weight on outflow for non-resident deposits in the Basel III liquidity ratios. Thus, the liabilities under 'other investment', which includes NRD, recorded an outflow of 61.8 QR billion, as against an inflow of 60.8 QR billion in 2021. The major contributors of capital and financial accounts as a percentage of GDP is reported in the Chart 3-6 below.



Source: Qatar Central Bank

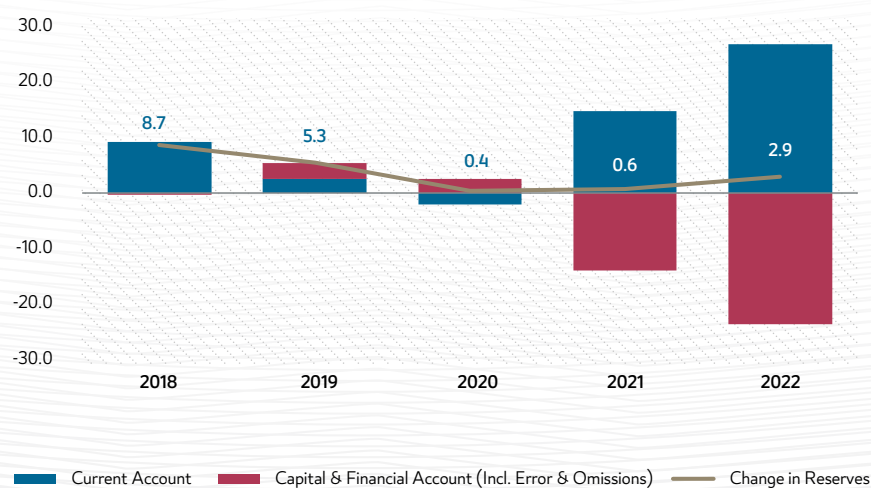
Further, total outflows in the Financial Account due to residents investing abroad (assets) stood at 131.8 QR billion in 2022, somewhat lower than 138.0 QR billion in 2021. Of these outflows, 'other investment' stood at 83.0 QR billion, followed by 'portfolio investment' at 40.1 QR billion and 'direct investment' at 8.4 QR billion.

Chart 3.7: Components of Financial Account



Thus, adjusted for errors and omissions, BOP recorded an overall surplus of 25.1 QR billion during 2022, leading to an equivalent amount of foreign exchange reserve accumulation (Chart 3-8), which is equivalent to 2.9 per cent of GDP.

Chart 3-8: Current and Financial Account Balances (in % of GDP)



Source: Qatar Central Bank

Annex

Qatar's Balance of Payments

(QR Million)

| Particular | 2018 | 2019 | 2020 | 2021 | 2022* |
|---|----------|----------|----------|----------|----------|
| A. Current Account | 60,614 | 15,506 | -10,868 | 95,802 | 229,749 |
| Goods | 185,572 | 151,355 | 98,779 | 219,634 | 354,699 |
| Exports (F. O. B.) | 306,810 | 265,483 | 187,474 | 317,420 | 476,711 |
| Imports (F. O. B.) | -121,238 | -114,128 | -88,695 | -97,786 | -122,012 |
| Services | -51,802 | -59,349 | -55,577 | -58,218 | -37,390 |
| Services (Credit) | 66,512 | 69,565 | 70,723 | 66,780 | 111,851 |
| Travel | 20,258 | 19,808 | 12,969 | 15,519 | 26,435 |
| Transportation | 36,619 | 38,811 | 41,045 | 41,110 | 70,137 |
| Others | 9,635 | 10,946 | 16,709 | 10,151 | 15,279 |
| Services (Debit) | -118,314 | -128,914 | -126,300 | -124,998 | -149,241 |
| Travel | -33,750 | -34,528 | -24,541 | -36,533 | -44,626 |
| Transportation | -41,676 | -50,812 | -56,646 | -48,026 | -49,271 |
| Others | -42,888 | -43,574 | -45,113 | -40,439 | -55,344 |
| Income | -13,633 | -16,051 | -11,082 | -10,057 | -30,171 |
| Income (Credit) | 29,171 | 32,554 | 38,140 | 37,730 | 51,629 |
| Compensation of employees | 0 | 0 | 0 | 0 | 0 |
| Investment Income | 29,171 | 32,554 | 38,140 | 37,730 | 51,629 |
| Income (Debit) | -42,804 | -48,605 | -49,222 | -47,787 | -81,800 |
| Compensation of employees | -528 | -545 | -459 | -499 | -559 |
| Investment Income | -42,276 | -48,060 | -48,763 | -47,288 | -81,241 |
| Current Transfers | -59,523 | -60,449 | -42,988 | -55,557 | -57,389 |
| Credit | 3,407 | 4,911 | 5,485 | 5,954 | 9,077 |
| Debit | -62,930 | -65,360 | -48,473 | -61,511 | -66,466 |
| of which Workers' Remittance | -41,543 | -43,003 | -36,349 | -39,418 | -44,161 |
| B. Capital and Financial Account | 1,035 | 21,733 | 17,458 | -85,729 | -197,494 |
| Capital Account | -873 | -519 | -613 | -526 | -808 |
| Financial Account | 1,908 | 22,252 | 18,071 | -85,203 | -196,686 |
| Direct Investment | -20,781 | -26,437 | -18,797 | -4,562 | -8,400 |
| Abroad | -12,823 | -16,199 | -9,937 | -582 | -8,677 |
| In Qatar | -7,958 | -10,238 | -8,860 | -3,980 | 277 |
| Portfolio Investment | -19,380 | 7,931 | -45,678 | -44,265 | -44,221 |
| Assets | -67,292 | -38,215 | -53,920 | -38,982 | -40,123 |
| Liabilities | 47,912 | 46,146 | 8,242 | -5,283 | -4,098 |
| Financial Derivatives, net | 885 | -48 | 752 | 1,254 | 782 |
| Other Investment | 41,184 | 40,806 | 81,794 | -37,630 | -144,847 |
| Assets | -17,217 | -35,497 | 1,002 | -98,446 | -83,034 |
| Liabilities | 58,401 | 76,303 | 80,792 | 60,816 | -61,813 |
| C. Net Errors & Omissions | -3,933 | -3,096 | -4,725 | -6,027 | -7,163 |
| D. Overall Balance | 57,716 | 34,143 | 1,865 | 4,046 | 25,092 |
| E. Change in Reserves (Increase -) | -57,716 | -34,143 | -1,865 | -4,046 | -25,092 |

* Revised Estimates

Section 4: Public Finance

Fiscal policy of the Government is an important determinant of economic activities in the State of Qatar. Public spending has a strong linkage with private sector economic activity, and thus drives the domestic economy in a fundamentally significant way. Even though public spending on major projects has moderated from a few years ago, it still accounts for a major share of total expenditure. In 2022, the sharp rise in global oil prices led to a huge gain in revenue for the Government leading to a large fiscal surplus.

The State Budget for 2022

The State Budget estimates for 2022 was presented in the backdrop of elevated level of oil prices, as commodity prices rose due to supply chain disruptions and shift in global demand pattern towards commodity intensive consumption. The government, however, continued to follow its prudent policy of keeping expenditure under control, while assuming a conservative level of oil prices. The budgeted revenue from Oil & Gas was 154 QR billion, while revenue from Miscellaneous Transfers was 42 QR billion (Chart 4-1). On the expenditure side, the budget estimates for 2022 were: Major projects 74.0 QR billion; Current Expenditure 67.2 QR billion; Wages and Salary 58.45 QR billion; and Secondary Capital 4.6 QR billion (Chart-4-2).

Chart 4-1: Composition of Total Public Revenue (QR Million)

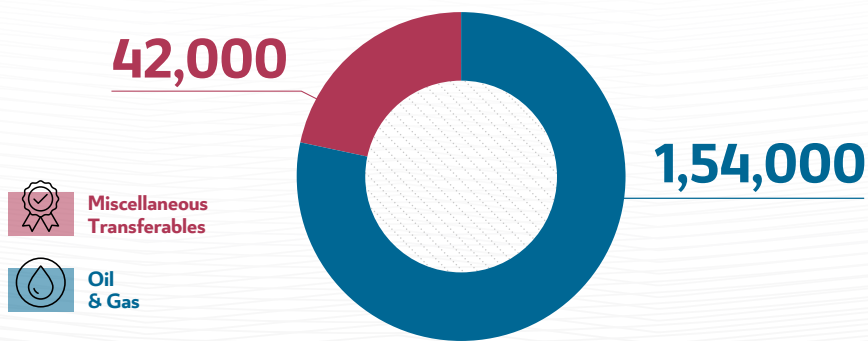
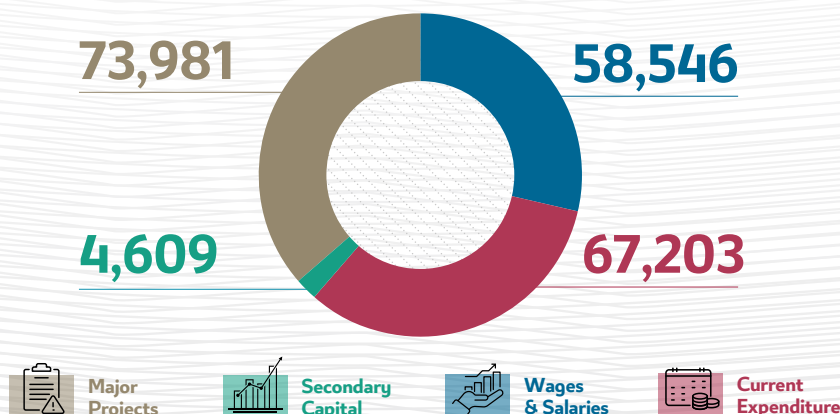


Chart 4-2: Composition of Total Public Expenditure (QR Million)

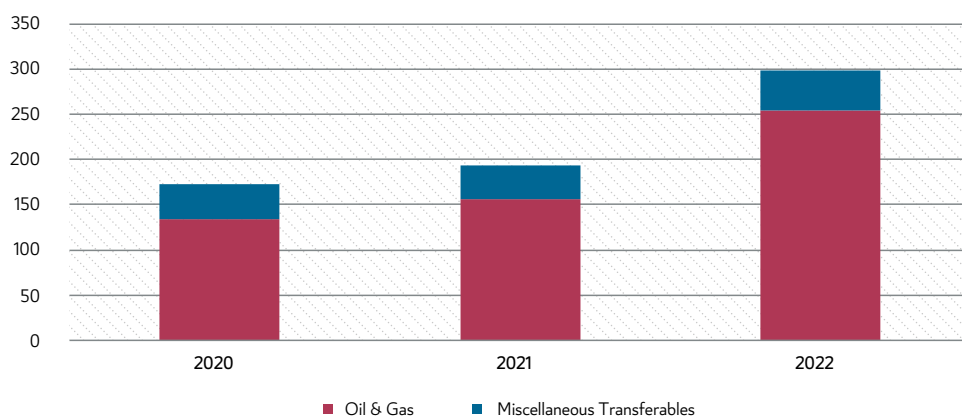


Source: Ministry of Finance

Total Public Revenue

High oil prices led to a total revenue increase by a whopping 53.7% to 297.8 QR billion in 2022 from that of 2021. Of these, 85.0% (253.2 QR billion) was accounted by revenue from 'oil and gas', rising markedly from 80.7% in 2021. Revenue from 'miscellaneous transferable', consisting of various fees and taxes, accounted for the rest 15% (44.6 QR billion) (Chart 4-3 and Table 4-1).

Chart 4-3: Qatar State Budget Revenue Composition (QR billion)



Source: Ministry of Finance

Table 4-1: Qatar State Budget

| | QR Million | | | | |
|--------------------------------|------------|---------|---------|---------|---------|
| Details | 2018 | 2019 | 2020 | 2021 | 2022 |
| I. Total Revenue | 207,912 | 215,430 | 171,975 | 193,726 | 297,789 |
| of which | | | | | |
| Oil & Gas | 173,126 | 170,667 | 134,080 | 156,342 | 253,209 |
| Miscellaneous Transferrable | 34,786 | 44,763 | 37,895 | 37,384 | 44,580 |
| II. Total Expenditure (a+b) | 192,835 | 208,418 | 182,454 | 192,135 | 208,742 |
| a. Revenue Expenditure | 111,155 | 124,106 | 115,922 | 119,636 | 133,369 |
| of which | | | | | |
| Wages and Salaries | 55,688 | 61,439 | 57,997 | 58,730 | 62,873 |
| Current Expenditure | 55,467 | 62,667 | 57,925 | 60,906 | 70,496 |
| b. Capital Expenditure | 81,680 | 84,312 | 66,532 | 72,500 | 75,373 |
| of which | | | | | |
| Secondary Capital | 3,840 | 4,092 | 3,510 | 3,528 | 4,846 |
| Major projects | 77,840 | 80,220 | 63,022 | 68,972 | 70,527 |
| Revenue Balance (I-II.a) | 96,757 | 91,324 | 56,053 | 74,090 | 164,420 |
| Overall Balance (I-II) | 15,077 | 7,012 | -10,479 | 1,591 | 89,047 |
| Indicators (%) | | | | | |
| Oil Revenue/Total Revenue | 83.3 | 79.2 | 78.0 | 80.7 | 85.0 |
| Wages and Salaries/ Total Exp. | 28.9 | 29.5 | 31.8 | 30.6 | 30.1 |
| Overall Balance/GDP | 2.3 | 1.1 | -2.0 | 0.2 | 10.4 |

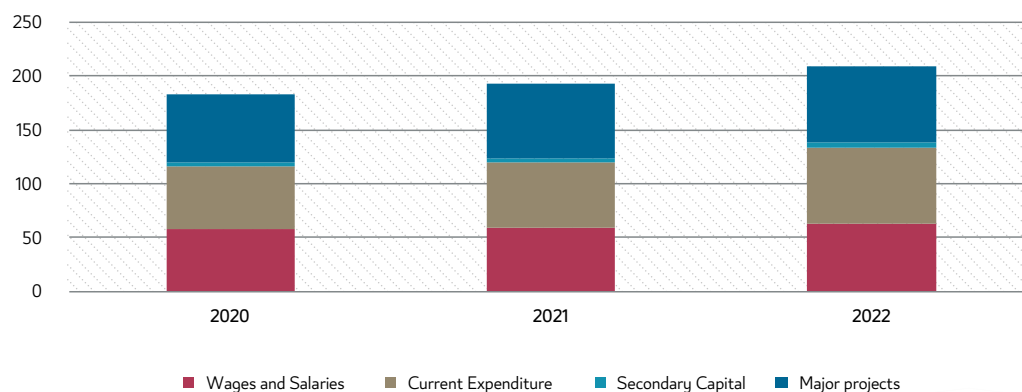
Source: Ministry of Finance



Total Public Expenditure

Total expenditure in 2022 stood at 208.7 QR billion, showing an increase of 8.6%. All its major components recorded an increase. Expenditure on major projects at 70.5 QR billion formed the largest component of total expenditure, though lower than a few years ago with the completion of projects related to the FIFA 2022. This was followed by current expenditure at 70.5 QR billion and wages and salaries at 62.9 QR billion (Table 4-1 and Chart 4-4).

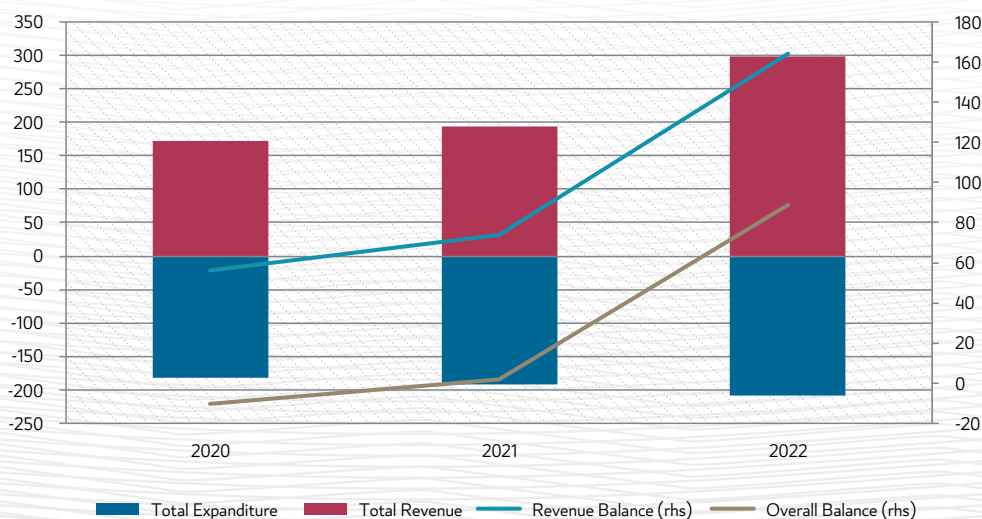
Chart 4-4: Qatar State Budget Expenditure Composition (QR billion)



Source: Ministry of Finance

The revenue surplus (i.e., total revenue minus wages and salary minus current expenditure) in 2022 rose to 164.4 QR billion from 74.1 QR billion. This reflects huge savings by the government, which can be used for capital expenditure that are more productive and generate future returns, either currently or in the future. However, capital expenditure (major projects and secondary capital) rose only by 4.0% due to the completion of the FIFA World Cup 2022-related projects, implying creation of fiscal buffers by the government. Consequently, there was an overall surplus (total revenue minus total expenditure) of 89.0 QR billion in 2022 as against the overall surplus of 1.6 QR billion in 2021 (Table 4-1 and Chart 4-5).

Chart 4-5: Qatar State Budget (QR billion)

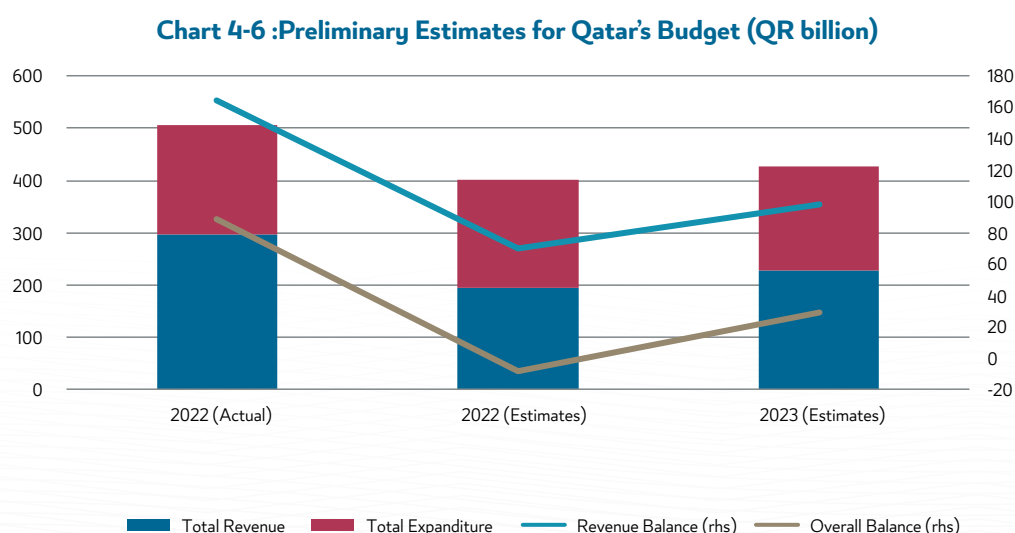


Source: Ministry of Finance

The State Budget Estimates for 2023

The total revenue in 2023 has been budgeted at 228.0 QR billion, significantly lower by 23.4% from the actual of 2022 (Chart 4-6). The budget has assumed a much lower oil price of USD 65 per barrel than the average oil prices that prevailed in 2022. Thus, in 2023, while revenue from 'oil and gas' would sharply decline by 26.5% to 186.0 QR billion from the actual of 2022, that of 'miscellaneous transferable' has been placed at 42.0 QR billion (Table 4-2).

The total expenditure in 2023 has been budgeted to decline by 4.7% from the actual of 2022 to 199.0 QR billion (Chart 4-6), with all the major components barring secondary projects slated to decline. For the first time in several years, current expenditure at 67.5 QR billion would form the largest component of expenditure, followed by expenditure on major projects at 63.9 QR billion and wages and salaries at QR 62.5 billion (Table 4-2).



Source: Ministry of Finance

The revenue balance and overall balance for 2023 are estimated to be a surplus of 98.0 QR billion and 29.0 QR billion, substantially lower than that of 2022 actual of 164.4 QR billion and 89.0 QR billion, respectively (Chart 4-6 and Table 4-2).

Table 4-2: Preliminary Estimates for Qatar's Budget

| Details | QR Million | | |
|-----------------------------|------------|-----------|-----------|
| | 2022 | | 2023 |
| | Actual | Estimates | Estimates |
| I. Total Revenue | 297,789 | 196,000 | 228,000 |
| of which | | | |
| Oil & Gas | 253,209 | 154,000 | 186,000 |
| Miscellaneous Transferrable | 44,580 | 42,000 | 42,000 |
| II. Total Expenditure (a+b) | 208,742 | 204,339 | 199,000 |
| a. Revenue Expenditure | 133,369 | 125,749 | 130,000 |
| of which | | | |
| Wages and Salaries | 62,873 | 58,546 | 62,500 |
| Current Expenditure | 70,496 | 67,203 | 67,500 |
| b. Capital Expenditure | 75,373 | 78,590 | 69,000 |
| of which | | | |
| Secondary Capital | 4,846 | 4,609 | 5,100 |
| Major projects | 70,527 | 73,981 | 63,900 |
| Revenue Balance (I-II.a) | 164,420 | 70,251 | 98,000 |
| Overall Balance (I-II) | 89,047 | -8,339 | 29,000 |

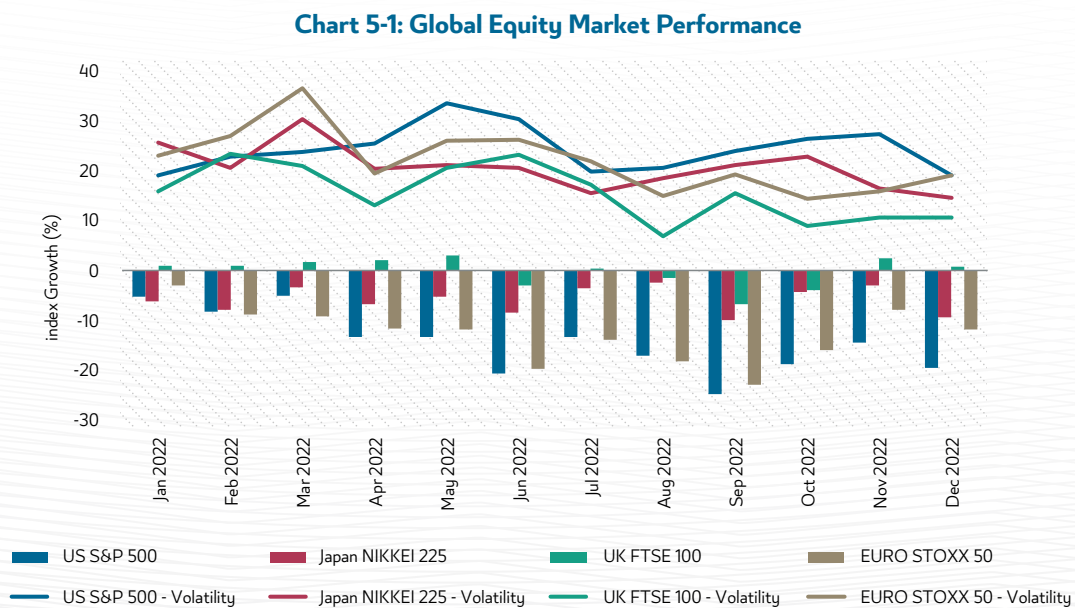
Source: Ministry of Finance

Section 1: Financial Markets

Global financial markets exhibited considerable volatility reacting to multiple headwinds including, monetary policy tightening, elevated inflation and the lingering effects of COVID-19. Bond yields in general hardened in anticipation and reaction to the policies of major central banks. The Dollar Index and portfolio flows generally remained volatile during 2022. The major downside risks facing the global financial markets in 2022 included stubborn core inflation, tight financial conditions and high geopolitical risks. In this backdrop, Qatar's financial markets exhibited orderly conditions during 2022.

Equity Market

A number of shocks in 2022, particularly the conflict in Ukraine and its aftermath resulted in large volatilities in global equity market (Chart 5-1). GCC markets largely coped well with the global developments such as rising inflationary pressures, fears of recession in advanced markets, monetary policy tightening abroad etc. However, some of these adverse shocks had a detrimental impact on market sentiments.



Source: Bloomberg

The moderation in performance of the GCC markets was especially pronounced in the second half of 2022 and more particularly in Q4-2022. The dependence of GCC countries on oil revenues and the fluctuation in oil prices during the latter part of the year enhanced the volatility in GCC stock markets.

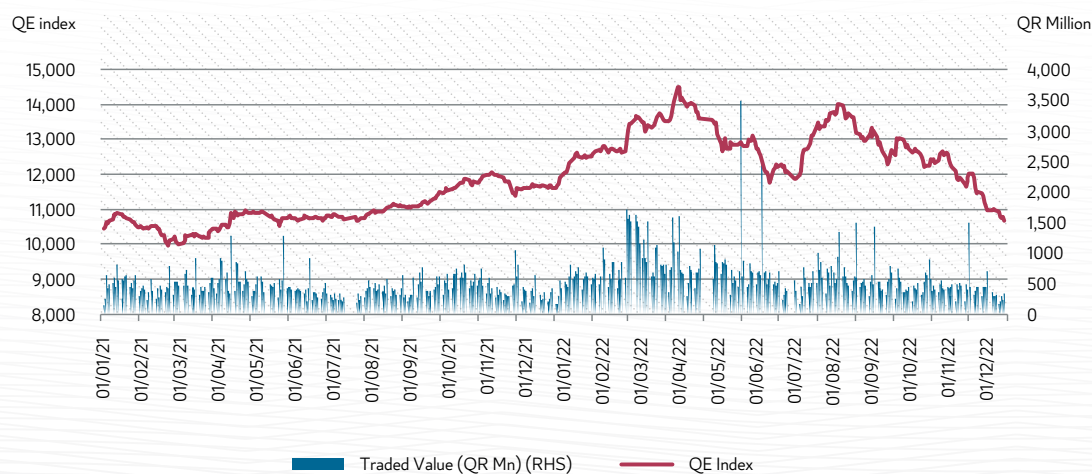
Table 5.1: GCC Securities Index Movements

| GCC Security Indices | 2020 | 2021 | 2022 |
|-------------------------|----------|----------|----------|
| MSCI GCC Index | 548.9 | 740.1 | 692.6 |
| Bahrain | 1,489.8 | 1,797.3 | 1,895.3 |
| KSA (TASI) | 8,689.5 | 11,281.7 | 10,478.5 |
| Kuwait (Premier Market) | 6,051.1 | 7,639.1 | 8,115.7 |
| Oman (Muscat 30) | 3,658.8 | 4,129.5 | 4,857.4 |
| Qatar | 10,436.0 | 11,625.8 | 10,681.1 |
| UAE (Abu Dhabi) | 5,045.3 | 8,488.4 | 10,211.1 |
| UAE (Dubai) | 2,492.0 | 3,195.9 | 3,336.1 |

Source: LSEG Datastream

The benchmark QE index movements largely followed the global trends and the geopolitical developments. However, it recorded a decline by the end of the year (2022) and market capitalization declined as compared with 2021 (Chart 5.2).

Chart 5.2: Daily Movements in QSE Index and Traded Value (Dec 2021 - Dec 2022)



Source: Qatar Stock Exchange



During 2022, trading value increased by 42.2% to reach 160.4 QR billion. Traded volume declined slightly by 3.5% to reach 45.4 QR billion shares from 47 QR billion shares in the previous year. There was a noticeable decline of almost 9% in market capitalization from 667.6 QR billion in 2021 to 608.2 QR billion in 2022 (Table 5.2)

Table 5.2: Qatar Stock Exchange - Main Indicators

| | 2020 | 2021 | 2022 | Y-o-Y (%) |
|-------------------------------------|----------|----------|----------|-----------|
| QE Index Closing, points | 10,436.0 | 11,625.8 | 10,681.1 | -8.1 |
| Traded Value (QR billion) | 105.8 | 112.8 | 160.4 | 42.2 |
| Traded Volume (QR billion Shares) | 55.2 | 47.0 | 45.4 | -3.5 |
| Market capitalization, (QR billion) | 602.2 | 667.6 | 608.2 | -8.9 |

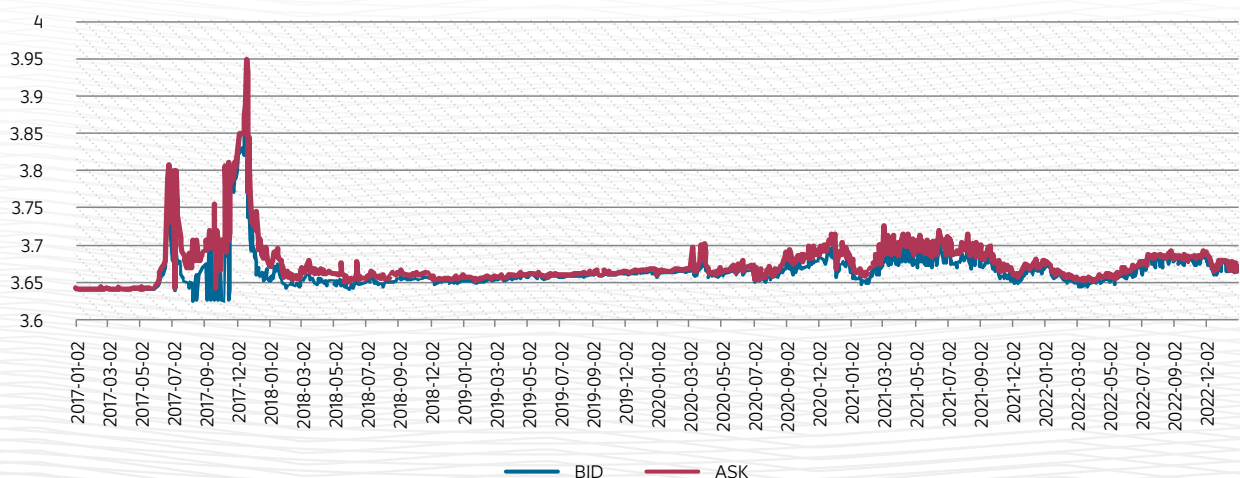
Source: Qatar Stock Exchange

Among sectoral indices, only the telecom sector and transportation sector posted large gain in 2022, which could be due to the stimulus/boost received from FIFA World Cup activities as well as incorporating potential future growth. All the remaining sub-indices posted losses over the year, with the banking sector, insurance and real estate sector posting double digit losses. This could be because of completion of major construction works related to the FIFA World Cup and the uncertain economic environment, going forward.

Exchange Rates

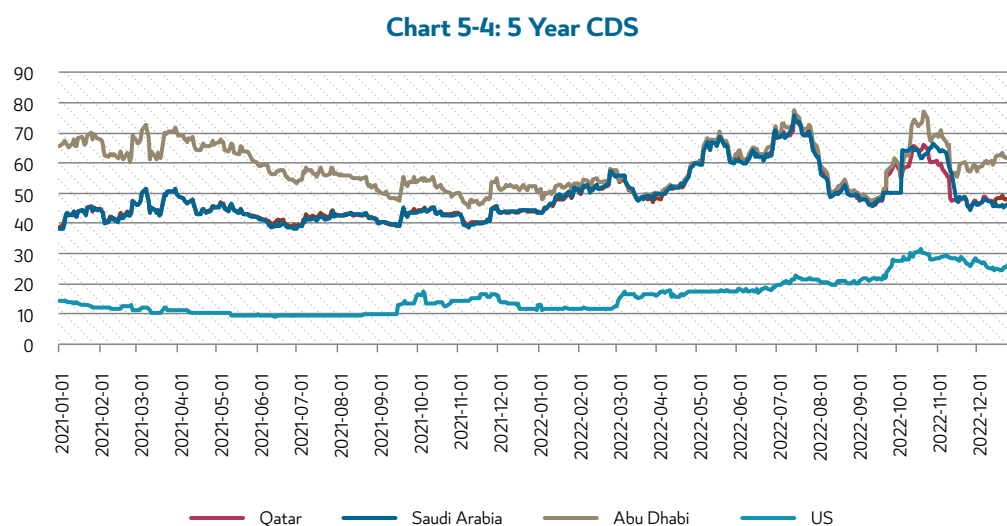
Offshore movements in the Qatari Riyal, which came under pressure in 2017, have largely stabilised since 2022. This mainly reflects the success of the QCB's calibrated implementation of policy measures introduced in 2022, which helped stabilize the uncertainty in the offshore forex market expectations (Chart 5-3).

Chart 5-3: Bid Ask Spread for QR



Source: Bloomberg

In line with the global experiences, the CDS spread for Qatar, though experienced some volatility in mid-2022, declined by the end of 2022. The CDS spread, which reflects the credit risk of the sovereign, indicated market confidence in the Qatari economy and its robustness in general (Chart 5-4).



Source: Bloomberg

The overall robust fundamentals of the Qatar's economy, its twin surpluses, improvement in visibility especially after the FIFA World Cup 2022, and increased confidence got reflected in Qatar's Sovereign ratings. In 2022, Moody's upgraded Qatar's outlook from Aa3/ Stable to Aa3/Positive. S&P also raised the Qatar's long-term sovereign credit rating to "AA" from "AA-", citing improvements in the government's fiscal position in November 2022 (Table 5-3).

Table 5-3: Qatar's Credit Ratings.

| | 2019 | 2020 | 2021 | 2022 |
|-----------------------|------------|------------|------------|--------------|
| S&P Global | AA-/Stable | AA-/Stable | AA-/Stable | AA/Stable |
| MOODY'S | Aa3/Stable | Aa3/Stable | Aa3/Stable | Aa3/Positive |
| FitchRatings | AA-/Stable | AA-/Stable | AA-/Stable | AA-/Stable |

Source: Credit rating: S&P, Fitch, Moody's

Section 2:

Money & Banking

Monetary and banking development is crucial for meeting the financing needs and supporting various sectors in the economy. QCB has been ensuring that there is adequate growth in money supply and credit in the economy. While too little a supply could choke economic activities, too much would also lead to inflation and have other adverse economic consequences. In 2022, even though monetary base contracted, there was adequate growth in banks deposits and credit, although at a slower pace than the previous year.

Monetary Development

The reserve money (M0) during 2022 contracted by 7.2% to 98.9 QR billion, as against an expansion of 5.2% during 2021. A decline in QMR deposits by 39.8% fully accounted for the decline in M0, as the other two components viz., currency issued and total reserves, grew by 5.5% and 1.1%, respectively (Table 6-1). Decline in QMR deposits can be primarily attributed to liquidity absorption through T-bills issuance discussed in detail in section 1 of chapter 3.

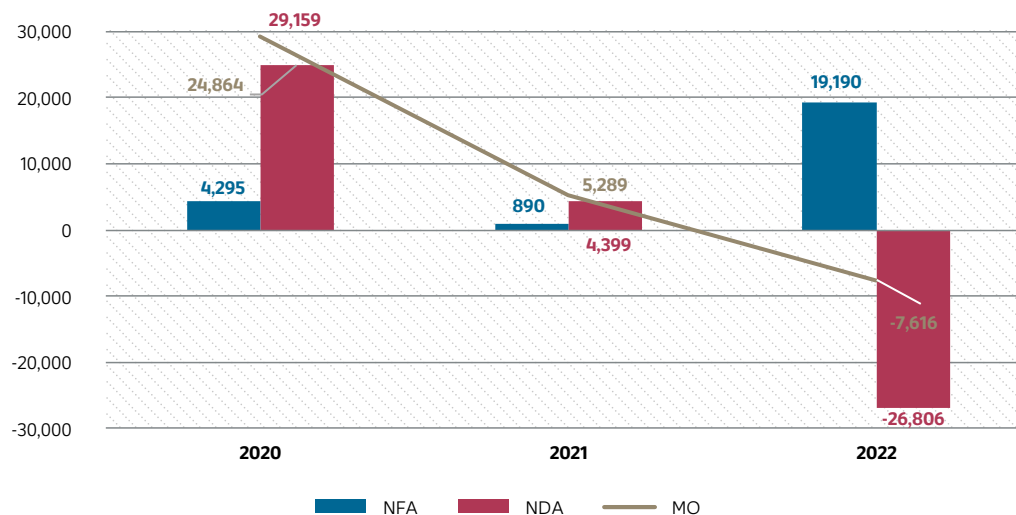
Table 6-1: Reserve Money

| Items | 2020 | 2021 | 2022 | QR Million | | | |
|--------------------|---------|---------|--------|-------------|------|-------------|-------|
| | | | | Change | | Change | |
| | | | | (2021/2020) | | (2022/2021) | |
| | | | | Value | % | Value | % |
| Reserve Money (M0) | 101,216 | 106,505 | 98,890 | 5,289 | 5.2 | -7,616 | -7.2 |
| Currency Issued | 26,271 | 24,590 | 25,943 | -1,681 | -6.4 | 1,352 | 5.5 |
| Total Reserves | 50,561 | 57,734 | 58,378 | 7,172 | 14.2 | 645 | 1.1 |
| QMR Deposits | 24,384 | 24,182 | 14,569 | -202 | -0.8 | -9,613 | -39.8 |

Source: Qatar Central Bank.

On the sources side of reserve money, the net foreign assets (NFA) of QCB which increased substantially by 19.2 QR billion was more than offset by decline in net domestic assets (NDA) by 26.8 QR billion (Chart 6-1). While the BOP surplus discussed in section-2 of chapter 1 led to increase in NFA, decline in QCB's claims on banks due to complete phasing out of zero rate repo was partly responsible for the decline in NDA.

Chart 6-1: Sources of Reserve Money Growth (QR Million)



Source: Qatar Central Bank.

Increase in NFA is closely linked to the international reserves of QCB, which increased by 19 QR billion, comfortably meeting many of the standard reserve adequacy indicators. In particular, existing law requires that QCB's international reserves should be at least 100.0% of currency issued, while the actual stood at 663.4% as at end December 2022 (Table 6-2).

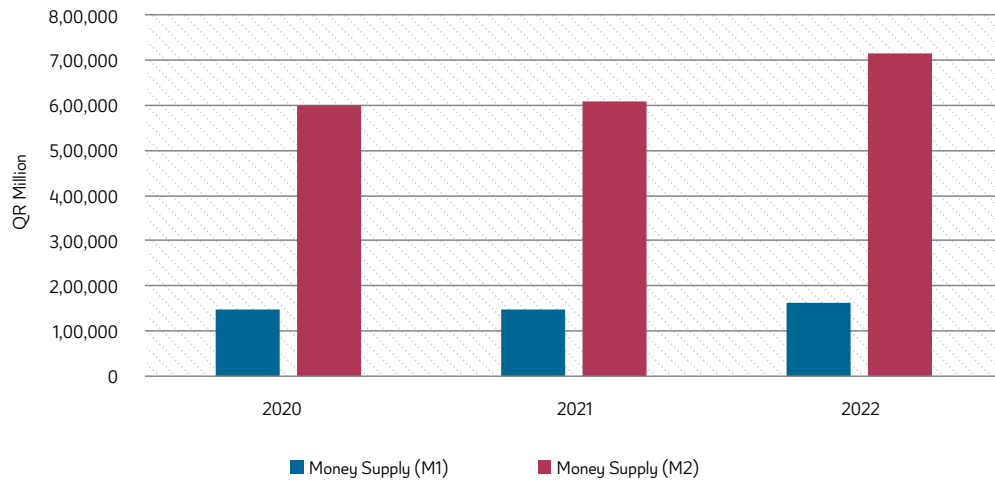
Table 6-2: Reserve Adequacy Indicators

| Ratio | 2019 | 2020 | 2021 | 2022 |
|--|-------|-------|-------|-------|
| Reserves/M0 (%) | 200.3 | 146.9 | 143.8 | 174.0 |
| Reserves/Currency (%) | 879.7 | 565.8 | 622.6 | 663.4 |
| Reserves/M2 (%) | 25.0 | 24.8 | 25.2 | 24.1 |
| Reserves/Imports of Goods & Services (in months) | 7.1 | 8.3 | 8.3 | 7.6 |

Source: Qatar Central Bank.

The narrow money supply (M1) during 2022 grew much higher by 8.4% as compared with an increase of 1.3% in 2021. Both the components of M1 viz., demand deposits and currency in circulation increased. However, the increase in demand deposits accounted for 95.5% of the total increase in M1. M1 at the end of 2022 stood at 160.8 QR billion, as compared with 148.3 QR billion at the end of 2021 (Chart 6-2 and Table 6-3). However, M1 as a ratio to nominal non-oil GDP declined to about 33.5% in 2022 from 35.9% in 2021, as nominal non-oil GDP grew at a much faster pace in 2022 driven by the FIFA World Cup 2022 related sectors. Conversely, for the same reason, the nominal non-oil GDP to M1 ratio increased to about 3.0 in 2022 from 2.8 in 2021.

Chart 6-2: Money Supply (QR Million)



Source: Qatar Central Bank.

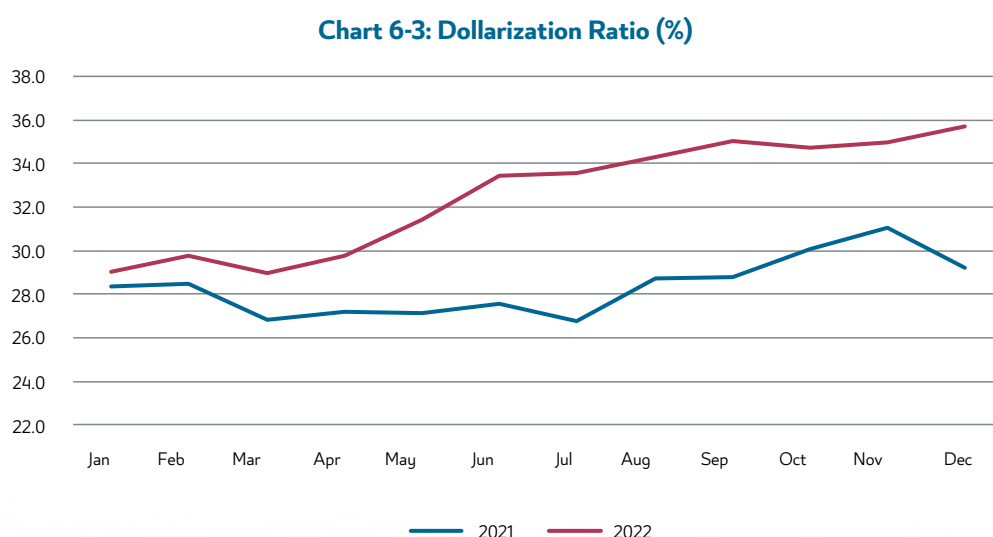
Broad money supply (M2) grew even at a much higher rate of 17.4% (106 QR billion) during 2022, as compared with a slight increase of 1.4% in 2021 (Table 6-3). All the components of M2 viz., M1 and quasi-money, increased, with quasi-money, consisting of deposits in foreign currencies and time deposits, primarily accounting for the sharp increase in M2 during 2022. Quasi-money grew by a high rate of 20.3% during 2022, as compared with a growth of 1.5% witnessed during 2021. While both deposits in foreign currencies and time deposits grew, it was the former which increased by 43.5% that primarily drove the increase in quasi-money. The increase in deposits in foreign currencies and time deposits could be attributed to a sharp rise in government revenue on account of higher oil and gas prices, partly along with rising deposit rates following policy rate hikes. Thus, M2 amounted to 714.0 QR billion at the end of 2022, as compared with 609.0 QR billion at the end of 2021. As a percentage of nominal GDP, M2, however, recorded a sharp decline to about 83.1% in 2022 from 93.0% in 2021, reflecting a much sharper growth in nominal GDP, primarily due to higher oil and gas prices. Conversely, the velocity (nominal GDP to M2 ratio) increased to 1.2 in 2022 from 1.1 in 2021.

Table 6-3: Money Supply

| Items | QR Million | | | | | | |
|--------------------------------|------------|---------|---------|-------------|------|-------------|------|
| | 2020 | 2021 | 2022 | Change | | Change | |
| | | | | (2021/2020) | | (2022/2021) | |
| | | | | Value | % | Value | % |
| Money Supply (M1) | 146,459 | 148,319 | 160,752 | 1,860 | 1.3 | 12,433 | 8.4 |
| Currency in Circulation | 13,791 | 12,708 | 13,264 | -1,083 | -7.9 | 555 | 4.4 |
| Demand Deposits | 132,668 | 135,611 | 147,489 | 2,943 | 2.2 | 11,878 | 8.8 |
| Quasi Money | 453,428 | 460,181 | 553,730 | 6,753 | 1.5 | 93,549 | 20.3 |
| Time Deposits | 287,924 | 282,466 | 298,751 | -5,458 | -1.9 | 16,285 | 5.8 |
| Deposits in Foreign Currencies | 165,504 | 177,715 | 254,978 | 12,211 | 7.4 | 77,264 | 43.5 |
| Money Supply (M2) | 599,887 | 608,500 | 714,482 | 8,613 | 1.4 | 105,982 | 17.4 |

Source: Qatar Central Bank.

With the far sharper increase in foreign currency deposits than M2, the dollarization rate (the percentage of deposits in foreign currencies in M2) increased significantly to 35.7% at the end of 2022 from 29.2% at the end of 2021. During 2022, the dollarization rate increased consistently from an average of 29.3% in the first quarter to an average of 35.1% in the fourth quarter (Chart 6-3).



Source: Qatar Central Bank.

Deposit Developments

Total deposits recorded a moderate growth of 2.6% year-on-year as at end December 2022, as compared with 7.6% in the previous year. However, domestic deposits, both public as well as private sector, recorded considerable growth. Public sector deposits grew by 20.7%, while private sector deposits increased by 13.2%. By contrast, non-resident deposits (NRD), year-on-year, declined sharply by 31.4% as at end December 2022. This decline in NRD was due to macroprudential measures undertaken by QCB by hiking required reserves on shorter-term components. Consequently, the sectoral distribution of the deposits changed significantly. As at end December 2022, the share of public sector deposits increased by 5.2 percentage points to 34.9%, the share of private sector deposits increased by 4.3% to 45.9% and the share of NRD declined by 9.5 percentage points to 19.3%. (Table 6-4 and Chart 6-4 and 6-5).

Table 6-4: Bank Deposits (End of period)

| Items | 2020 | 2021 | 2022 | QR Million | | | |
|-------------------------|---------|---------|---------|-------------|------|-------------|-------|
| | | | | Change | | Change | |
| | | | | (2021/2020) | | (2022/2021) | |
| | | | | Value | % | Value | % |
| Public sector deposits | 263,289 | 288,676 | 348,339 | 25,386 | 9.6 | 59,663 | 20.7 |
| Private sector deposits | 397,062 | 404,765 | 458,209 | 7,704 | 1.9 | 53,444 | 13.2 |
| Non-Residents deposits | 245,158 | 280,669 | 192,595 | 35,511 | 14.5 | -88,074 | -31.4 |
| Total Bank Deposits | 905,509 | 974,110 | 999,143 | 68,601 | 7.6 | 25,033 | 2.6 |

Source: Qatar Central Bank.

Chart 6-4: Share in Private Sector Deposit 2021 (%)

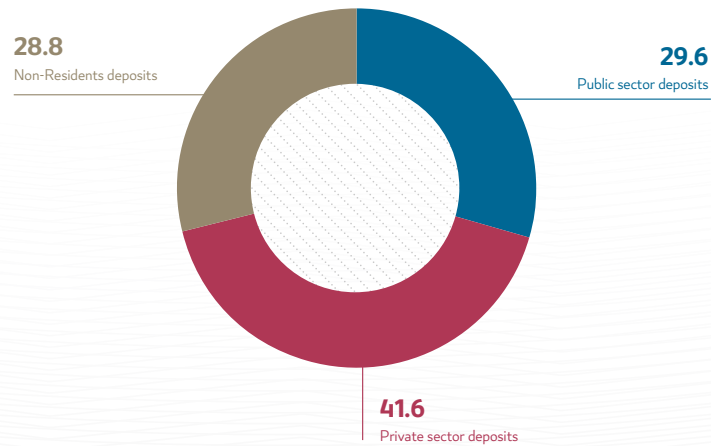
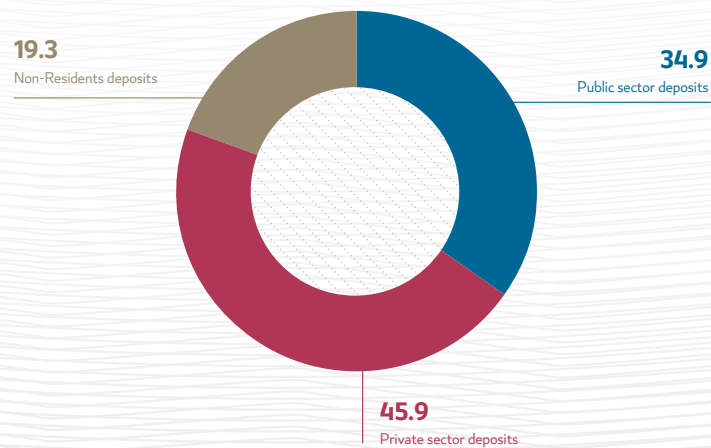


Chart 6-5: Share in Private Sector Deposit 2022 (%)



Source: Qatar Central Bank.

Credit Developments

The domestic credit growth slowed down significantly to 4.5% in 2022 from 8.8% in 2021. The slowdown was due to a deceleration in private sector credit growth to 7.4% from 9.5% in 2021, and a contraction in public sector credit by 1.4% as against a growth of 7.6% in 2021. Within the public sector credit, credit to Government & Semi-Government Institutions declined by 18.4% and 2.3%, respectively, while credit to Government Institutions increased by 9.7% during 2022. The sharp fall in credit to the Government during 2022 was due to a huge decline in 'overdraft' by 31.0%, as against an increase of 33.2% during 2021, as there was a large improvement in government revenue in 2022 on account of higher oil and gas prices. By contrast, growth in 'loans and others' to the public sector accelerated significantly to 7.3% in 2022 from 1.0% in 2021. Thus, the overall credit to the public sector at the end of 2022 declined marginally to 374.2 QR billion from 379.7 QR billion at the end of 2021 (Table 6-5).

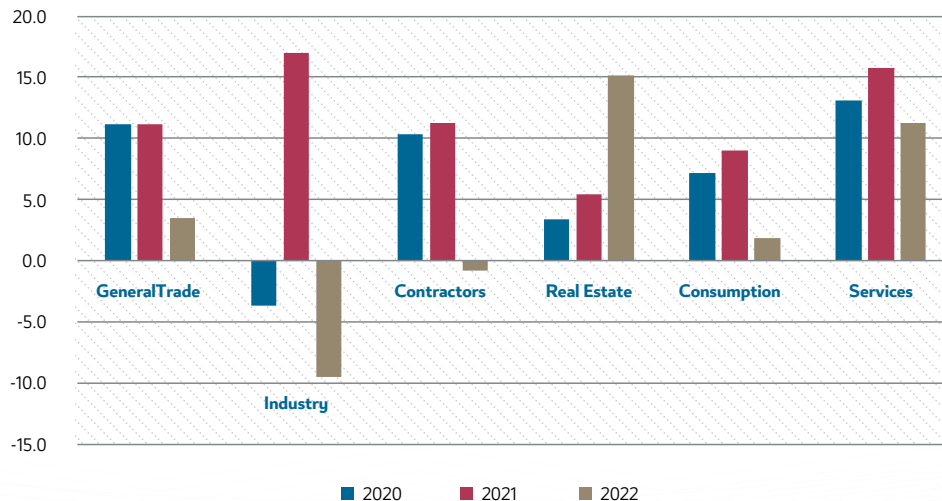
Table 6-5: Domestic Credit by Sector and Economic Activity

| Items | 2020 | 2021 | 2022 | QR Million | | | |
|-------------------------------|-----------|-----------|-----------|-------------|-------|-------------|-------|
| | | | | Change | | Change | |
| | | | | (2021/2020) | | (2022/2021) | |
| | | | | Value | % | Value | % |
| Public sector | 352,872 | 379,652 | 374,198 | 26,781 | 7.6 | -5,454 | -1.4 |
| Government | 136,798 | 142,258 | 116,013 | 5,460 | 4.0 | -26,245 | -18.4 |
| Government Institutions | 196,989 | 218,665 | 239,889 | 21,676 | 11.0 | 21,225 | 9.7 |
| Semi- Government Institutions | 19,085 | 18,730 | 18,296 | -355 | -1.9 | -434 | -2.3 |
| Private sector | 700,413 | 766,821 | 823,568 | 66,408 | 9.5 | 56,748 | 7.4 |
| General Trade | 146,861 | 163,218 | 168,929 | 16,356 | 11.1 | 5,711 | 3.5 |
| Industry | 16,869 | 19,736 | 17,869 | 2,867 | 17 | -1,867 | -9.5 |
| Contractors | 37,694 | 41,937 | 41,593 | 4,243 | 11.3 | -344 | -0.8 |
| Real estate | 152,691 | 161,007 | 185,457 | 8,315 | 5.4 | 24,451 | 15.2 |
| Consumption | 147,000 | 160,280 | 163,186 | 13,280 | 9 | 2,906 | 1.8 |
| Services | 188,128 | 217,784 | 242,311 | 29,656 | 15.8 | 24,527 | 11.3 |
| Others | 11,170 | 2,860 | 4,224 | -8,310 | -74.4 | 1,364 | 47.7 |
| Total Domestic Credit | 1,053,285 | 1,146,473 | 1,197,766 | 93,189 | 8.8 | 51,293 | 4.5 |

Source: Qatar Central Bank.

The deceleration in credit to the private sector in 2022 from 2021 could partly be attributed to rising lending rates following policy rate hikes. The growth in credit to the private sector during 2022 was primarily led by an increase in credit to “services” by 11.3% and “Real estate” by 15.2%. While credit to “General trade” and Consumption grew at a modest pace of 3.5% and 1.8%, respectively, credit to “Contractors” and “Industry” declined by 0.8% and 9.5%, respectively, (Table 6-5 and Chart 6-6).

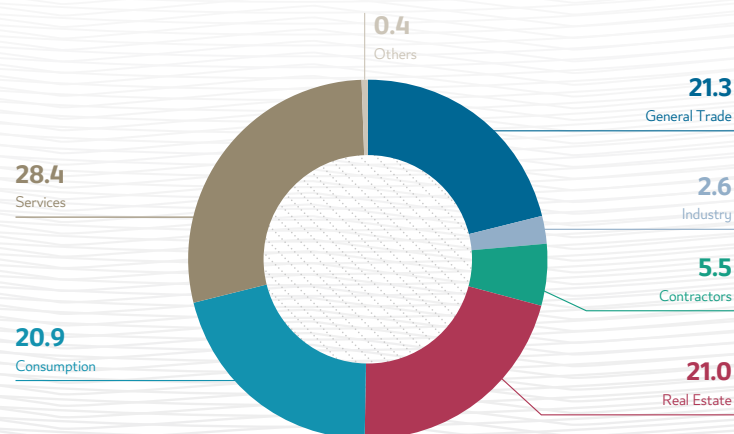
Chart 6-6: Private Sector Credit Growth (%)



Source: Qatar Central Bank.

With different pace in the credit growth of subsectors, there was some compositional shift in the private sector credit. Share of “Services”, which accounts for the largest share, increased further to 29.4% in 2022. The share of “Real Estate” also increased to 22.5% and accounted for second largest share in 2022, replacing the position of “General Trade” with the third largest share of 20.5%. “Consumption”, at fourth place, accounted for a formidable share of 19.8% (Chart 6-7 and 6-8). These shares of different subsectors in private credit reflected the size and thus the relative degree of demand for credit of these sectors in the economic activities.

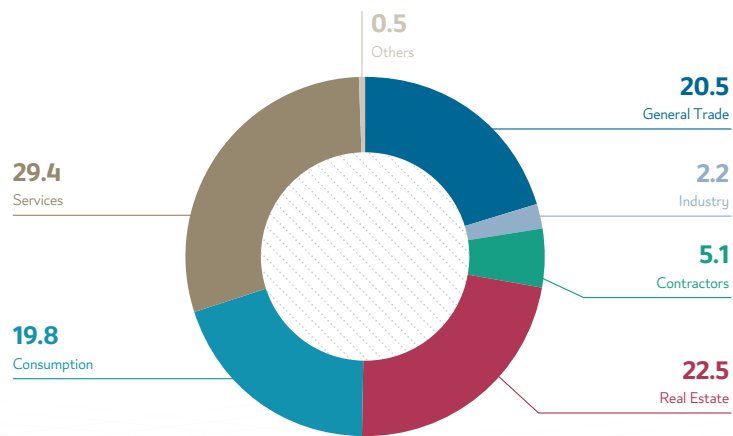
Chart 6-7: Share in Private Sector Credit 2021 (%)



Source: Qatar Central Bank.

In this context of credit growth, empirical evidence suggests that there is a positive relationship between domestic credit growth and non-oil economic activity. However, some deceleration in credit growth, but a significant pickup in the growth of non-oil activity in 2022 may appear counter intuitive. One reason for such a dichotomy could be the sharp pickup in the economic activity associated with the FIFA World Cup 2022, which need not necessarily increase the demand for credit. But at the same time, it may be noted that excluding overdrafts, domestic bank credit has remained reasonably robust, which may have a stronger association with non-oil economic activity.

Chart 6-8: Share in Private Sector Credit 2022 (%)



Source: Qatar Central Bank.

03

CHAPTER 03

MONETARY POLICY DEVELOPMENTS

Monetary Policy, Liquidity
and Money Markets



Monetary Policy, Liquidity and Money Markets

QCB has been conducting its monetary policy to achieve the mandate to “maintain the currency value and ensure monetary stability” for the purposes of developing and supporting the national economy. As with most GCC countries, the monetary policy framework is a fixed exchange rate of the Qatari Riyal (QR) with the US Dollar (USD) since 1980. In this regard, International Monetary Fund (IMF) has been reiterating that the peg continues to serve Qatar well by providing a credible nominal anchor.

To defend the peg, QCB sets its monetary policy rates and manages the average overnight interbank interest rates - the operating target. This is achieved through its liquidity management operations.

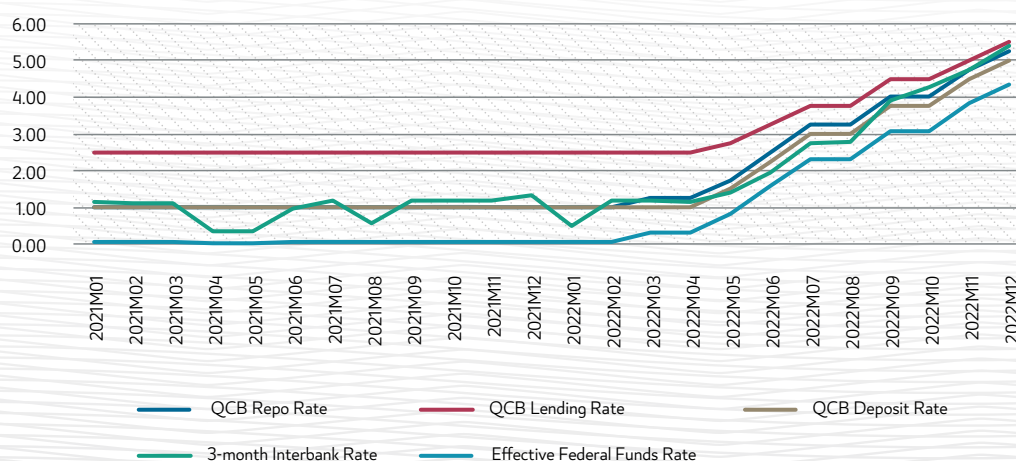
Monetary Policy Developments

QCB resorts to a number of instruments to implement its monetary policy. These instruments are:

- 1) The “QCB Deposit Rate” (QCBDR), at which banks can keep deposit with QCB with a pre-specified bank-by-bank ceiling);
- 2) The “QMR Lending rate” (QCBLR), at which banks can borrow from QCB without a collateral;
- 3) The “Repo Rate” (QCBRR), at which the banks can borrow from QCB by providing a collateral; and
- 4) The “Required Reserve Ratio” (the ratio of average total deposits that banks have to keep as interest-free balances with QCB on a daily basis).

In 2022, QCB raised its policy rates in several rounds to defend the currency peg. This was in response to the US Federal Reserve rate hikes to tame inflation in the US. Overall, the QCB repo rate (QCBRR) was raised by 425 basis points (bps), the QCB lending rate (QCBLR) by 300 bps and the QCB deposit rate by 400 bps. Thus, the gap between the QCBLR and the QCBDR was narrowed down to 50 bps, while placing the QCBRR at the middle (Chart 7-1).

Chart 7-1 : Movements in Policy Rates (%)



Source: Qatar Central Bank and the US Federal Reserve.

Liquidity Management Operations

Development in liquidity and money markets plays an important role in the achievement of QCB's monetary policy objective. In this regard, in 2022, several steps were undertaken to overhaul the liquidity management operations. First, in addition to existing T-bills of 91-days, 182-days and 273-days, since the beginning of October, two more maturities of 7-days and 28-days were introduced. Second, T-bill yields were calibrated to make them more attractive to the market participants. Third, the volume of fresh issuances far exceeded the redemption amount to absorb excess liquidity in the banking system. Fourth, the required reserves on shorter-term components of non-resident deposits (NRD) were raised, as a macro-prudential measure, which had the impact of reducing the excess liquidity in the banking system. Fifth, the zero-rate repo introduced to provide additional liquidity during the pandemic was completely phased out by end December-2022.

T-Bills Issuances During 2022

In 2022, fresh T-bills issuances amount matched redemptions amount of 1.8 QR billion in each of the first three quarters, and were therefore liquidity neutral. With the issuances of additional T-bills since the beginning of October, the total issuances of T-bills in 2022 amounted to 28.9 QR billion, with 23.5 QR billion (81.3%) issued in Q4 alone. The maximum amount issued was for 91-days (8.7 QR billion) followed by 182-days (6.9 QR billion) and 7-days (6.5 QR billion). On the other hand, the total T-bills matured amounted to 14.7 QR billion of which 9.3 QR billion (63.3%) matured in Q4 alone, primarily on account of 7-days and 28-days maturing within the quarter itself. Thus, there were net additional T-bills issuances or absorption of liquidity amounting to 14.2 QR billion in 2022 (Table 7-1).

Table 7-1: Treasury Bills (QR Million)

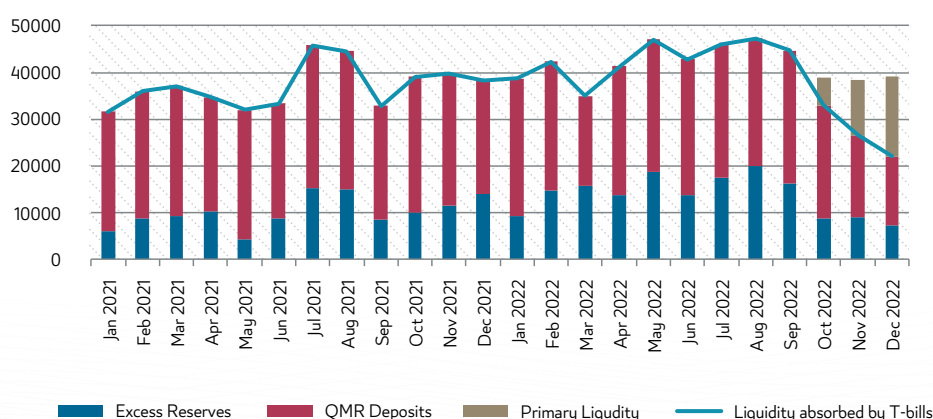
| ITEMS | Q1 | Q2 | Q3 | Q4 | 2022 |
|---------------------------------|-------|-------|-------|--------|--------|
| T- Bills Issued | 1,800 | 1,800 | 1,800 | 23,500 | 28,900 |
| 7-days | 0 | 0 | 0 | 6,500 | 6,500 |
| 28-days | 0 | 0 | 0 | 2,000 | 2,000 |
| 91-days | 900 | 900 | 900 | 6,000 | 8,700 |
| 182-days | 600 | 600 | 600 | 5,100 | 6,900 |
| 273-days | 300 | 300 | 300 | 3,900 | 4,800 |
| T- Bills Matured | 1,800 | 1,800 | 1,800 | 9,300 | 14,700 |
| 7-days | 0 | 0 | 0 | 6,000 | 6,000 |
| 28-days | 0 | 0 | 0 | 1,500 | 1,500 |
| 91-days | 900 | 900 | 900 | 900 | 3,600 |
| 182-days | 600 | 600 | 600 | 600 | 2,400 |
| 273-days | 300 | 300 | 300 | 300 | 1,200 |
| T- Bills Outstanding (Year-End) | 3,000 | 3,000 | 3,000 | 17,200 | 17,200 |

Source: Qatar Central Bank.

Liquidity in the Banking System in 2022

As a result of the liquidity absorption measures, primary liquidity (i.e., excess reserves plus net QMR deposits) declined sharply by 42.5% to 22.0 QR billion at end-December 2022 from 38.3 QR billion at end-December 2021. Both the components viz., net QMR deposits and excess reserves declined. While net QMR deposits declined by 39.8% to 14.6 QR billion at end-December 2022 from 24.2 QR billion at end-December 2021, excess reserves declined by 47.0% to 7.4 QR billion from 14.1 QR billion during the same period (Chart 7-2 and Table 7-2). Complete phasing out of zero rate repo by end-December further helped in reducing the primary liquidity.

Chart 7.2: Liquidity in the Banking System (in QR Million)



Source: Qatar Central Bank.

Table 7-2: Liquidity Indicators (in QR Million)

| Year-end (Outstanding) | Net QMR Deposits | Excess Reserves | Primary Liquidity | T-Bills |
|------------------------|------------------|-----------------|-------------------|---------|
| 2020 | 24,384 | 10,293 | 34,676 | 3,000 |
| 2021 | 24,182 | 14,122 | 38,304 | 3,000 |
| 2022 | 14,569 | 7,441 | 22,010 | 17,200 |

Source: Qatar Central Bank.

Intra-Year Developments in Primary Liquidity During 2022

Even though primary liquidity in the banking system declined sharply between end-December 2021 and end-December 2022, there was an overall rising trend in primary liquidity from 38.7 QR billion in January 2022 to 47.3 QR billion in August 2022. With the issuances of additional T-bills from the beginning of October, primary liquidity declined thereafter to QR 22.0 billion as at end-December 2022.

The liquidity absorption through T-bills got reflected in the decline in excess reserve balances of banks with QCB, which are unremunerated. Excess reserves ranged between 9.3 to 20.0 QR billion, averaging 15.5 QR billion, during January-September 2022. These declined to a range of 7.4 to 8.9 QR billion, averaging 8.4 QR billion, during October-December 2022 (Table 7-3).

Table 7-3: Intra-year Developments in Primary Liquidity During 2022

| Period | QR Million (End of Period) | | | | | | |
|--------|----------------------------|----------|---------------------|-----------------|-------------------|---------------------|--------------------------------|
| | QMR Deposit | QMR Loan | Net QMR Outstanding | Excess Reserves | Primary Liquidity | T-Bills Outstanding | Primary Liquidity plus T-bills |
| Jan-22 | 29,376 | 0 | 29,376 | 9,315 | 38,692 | 3,000 | 41,692 |
| Feb-22 | 27,650 | 0 | 27,650 | 14,723 | 42,373 | 3,000 | 45,373 |
| Mar-22 | 19,285 | 0 | 19,285 | 15,675 | 34,960 | 3,000 | 37,960 |
| Apr-22 | 27,571 | 0 | 27,571 | 13,760 | 41,330 | 3,000 | 44,330 |
| May-22 | 28,138 | 0 | 28,138 | 18,877 | 47,015 | 3,000 | 50,015 |
| Jun-22 | 29,108 | 0 | 29,108 | 13,714 | 42,822 | 3,000 | 45,822 |
| Jul-22 | 28,482 | 0 | 28,482 | 17,456 | 45,938 | 3,000 | 48,938 |
| Aug-22 | 27,201 | 0 | 27,201 | 20,098 | 47,299 | 3,000 | 50,299 |
| Sep-22 | 28,382 | 0 | 28,382 | 16,270 | 44,652 | 3,000 | 47,652 |
| Oct-22 | 24,214 | 0 | 24,214 | 8,780 | 32,994 | 8,400 | 41,394 |
| Nov-22 | 17,529 | 0 | 17,529 | 8,953 | 26,483 | 12,800 | 39,283 |
| Dec-22 | 14,569 | 0 | 14,569 | 7,441 | 22,010 | 17,200 | 39,210 |

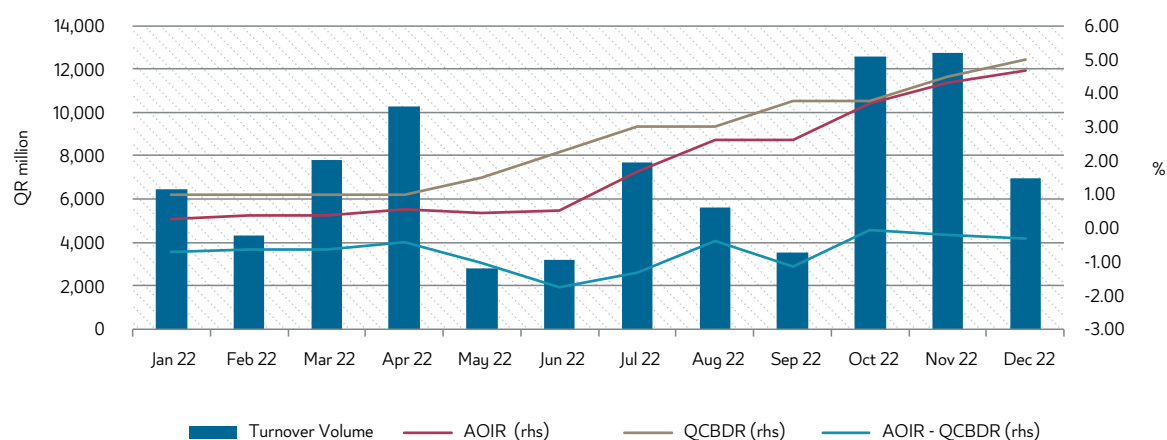
Source: Qatar Central Bank.

QMR deposits also declined as interest rates on T-bills were higher than QCB deposit rates, and thus banks shifted funds from QMR deposits to T-bills. QMR deposits ranged between 19.3 to 29.4 QR billion, averaging 27.2 QR billion during January-September. These declined to a range of 14.6 to 24.2 QR billion, averaging 18.8 QR billion during October-December (Table 7-3).

Interbank Market During 2022

The overhaul in the liquidity management operations undertaken by QCB had a profound impact on the interbank market. In general, when primary liquidity in the banking system is high, the turnover volume in the overnight interbank market is lower. With the liquidity absorption since October 2022 mentioned above, the turnover volume in the overnight interbank market increased significantly during October-December, 2022. While the overnight interbank market turnover volume averaged 5.7 QR billion during January-September, 2022, it increased to 10.8 QR billion during October-December 2022, an increase of 87.7% (Chart 7-32).

Chart 7-3: Overnight Interbank Market and Interest Rates



Source: Qatar Central Bank.

An increase in the turnover volume in the overnight interbank market due to lesser excess primary liquidity further reflected on better monetary policy transmission by way of alignment between the AOIR (the operating target) and the QCBDR (the floor rate). Consequently, AOIR which fell below the QCBDR by an average of 90 basis points during January-September, 2022 was lower by an average of 19 basis points only during October-December 2022 (Chart 7-1).

Overall Assessments

Qatar's economy was already on a long-term growth path before the World Cup 2022, and the tournament's hosting accelerated its diversification efforts. Development of new infrastructure boosted the country's construction sector and uplifted the tourism industry. Post-World Cup, the tourism industry is expected to continue growing, strengthening the services sector, with the new infrastructure creating a lasting legacy that will aid economic diversification. Further, the Third National Development Strategy (NDS3) offers a doctrine to accelerate the shift of the economy towards a knowledge-based, inclusive economy with growth driven by the private sector.

Going forward, inflation is expected to moderate significantly, mainly due to moderation in global inflation, and consequently, imported inflation in Qatar is likely to decline. Further, the significant domestic price rise in sectors linked to the FIFA 2022, such as housing, transportation, and restaurants and hotels, which have subsided, would likely continue.

The year 2022 witnessed a huge improvement in the fiscal position of the Government. Buoyed by the elevated level of oil prices, far more than the conservative level assumed in the budget, there was a huge boost in the revenue. The Government, on the other hand, continued with its fiscal strategy of sticking the expenditure at around the budgeted level. Thus, there were huge surpluses in the revenue account and the overall account. These fiscal gains are expected to continue, as the government continues to be conservative in the assumption of oil prices in the budget estimates.

The year 2022 saw Qatar's balance of payments improve due to higher oil prices in the global market. In the medium term, the increase in LNG production and stepped-up reform initiatives will likely improve the current account balance even further. The twin surpluses are likely to bolster a positive outlook and resilience for Qatar's Economy in the years to come.

With the deliberate measures undertaken by QCB to absorb primary liquidity, the reserve money in 2022 declined markedly, notwithstanding an increase in the currency issued and total reserves of banks with QCB. However, both the narrow money and the broad money grew as domestic demand and time deposits rose, implying a significant rise in the money multipliers as reserve money contracted.

In 2022, total domestic bank credit and private-sector credit growth decelerated somewhat, which could partly be attributed to the rising cost of funds with monetary tightening. Public-sector credit contracted due to falling levels of government overdrafts, as oil revenue increased. Going ahead, credit growth is expected to remain weak, as the cost of funds would remain elevated, and moderate pace of expansion in non-oil economic activities due to the completion of the World Cup-related projects.

In line with the global phenomenon, QCB in 2022 rapidly tightened its monetary policy by raising the policy rates in several rounds. However, a notable feature from the perspective of QCB was the overhaul of the monetary policy operations in 2022 by revamping its liquidity management operations. In this, the most pertinent and effective steps undertaken by QCB was the issuance of additional T-bills of different maturities, with an amount much higher than the redemption amount to absorb excess liquidity. The yields were also calibrated to make these T-bills more attractive to the market participants. The complete phasing out of zero rate repo facility, and the hike in reserve requirements on shorter-term components of NRD also contributed to absorbing the excess liquidity. These measures have had a profound impact on the interbank market and the monetary policy transmission in the later part of 2022. The average turnover in the overnight interbank market increased substantially after the absorption of excess liquidity in Q4-2022. Relatedly, the monetary policy transmission improved with complete alignment between the AOIR (the operating target) and the QCBDR (the floor rate).

Qatar is at an important crossroad, wherein a slew of public policies is encouraging more dynamic private sector-driven, market-oriented futuristic developments. These involve enhancing human capital, labour market dynamism, business climate, and digitalization while paying careful attention to possible hazards. Recent policies are also bolstering climate resilience and the green transition. These are likely to achieve further improvements in the external balance, foreign investments in the country, and pave the way to a sustainable growth path.

