

FOR
AGENDA

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CONTAINS CONFIDENTIAL
INFORMATION

February 9, 1982

To: Members of the Executive Board
From: The Secretary
Subject: Qatar - Staff Report for the 1981 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1981 Article IV consultation with Qatar.

This subject will be brought to the agenda for discussion on a date to be announced.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

QATAR

Staff Report for the 1981 Article IV Consultation

Prepared by the Staff Representatives for the
1981 Consultation with Qatar

Approved by Said H. Hitti and Subimal Mookerjee

February 8, 1982

I Introduction

The 1981 Article IV consultation discussions with Qatar were held in Doha during the period November 7-10, 1981. The Qatar representatives were senior officials of the ministries of Finance and Petroleum, Agriculture and Industry, Economy and Commerce, Labor and Social Affairs, the Qatar Monetary Agency, and other public sector agencies and corporations. The mission was composed of Messrs. S. H. Hitti (Head), S. Geadah, J. Rose, and G. Tomasson (all of MED), and Miss M. Haldeman (Secretary - RES). Qatar accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund Articles of Agreement on June 4, 1973. The last consultation discussions were held in December 1979 and the Staff Report (SM/80/37) was discussed by the Executive Board on February 29, 1980.

II. Background

Qatar accounts for about 1.5 per cent of OPEC's oil output. The economy of the country is highly dependent on its oil sector which accounts for about two thirds of GDP ^{1/} and provides almost all of export and government revenues. After peaking in 1973, oil output was decreased in 1974 in order to prolong the productive life of the fields and thereafter in the period 1975-79 output fluctuated around 0.5 million barrels per day (b/d). Mainly reflecting price developments, the oil revenues quadrupled in 1974, stabilized at about QR 7.5 billion per annum until 1978, and increased to over QR 11 billion in 1979. ^{2/}

A major objective of government policy has been to diversify the productive base of the economy. The oil revenues were used to finance public investments and current outlays. The changes in public expenditure levels constituted the principal determinant of the tempo of economic activity, liquidity creation, and the balance of payments.

^{1/} Estimate based on proportions in similar economies in the region. There are no national income accounts for Qatar.

^{2/} The latest dollar rate quotation is US\$1 = QR 3.6

outcome. Since 1974, the economy passed through three distinct phases reflecting major variations in the rate of public domestic spending. The 1974-77 period was characterized by rapid increases in expenditures which stimulated strong economic expansion. During these four years the annual rates of domestic liquidity creation (money plus quasi-money) and of credit expansion to the private sector averaged nearly 50 per cent, imports quadrupled, and the inflow of foreign labor increased sharply. The flow of goods and services from abroad, however, was constrained by supply bottlenecks and consequently pressure on the available resources resulted in inflation rates exceeding 25 per cent annually. The overall fiscal and balance of payments surpluses which were large in 1974 had been eliminated by 1977, reflecting expenditure growth matched by a stable revenue pattern.

The second phase was ushered in when the authorities adopted in 1978 a restrained fiscal stance in order to reduce inflationary pressures and eliminate the emerging fiscal deficit. The decrease in government expenditures in 1978 led to a decline in the growth of demand for labor, wages, and housing rentals. The rate of inflation is estimated to have fallen to less than 15 per cent in 1978. The rate of growth of bank credit to the private sector fell to 17 per cent and the rate of monetary expansion to 15 per cent. The fiscal and balance of payments positions reverted to comfortable surpluses. These policies were continued for most of 1979 but were changed in the latter part of the year when the authorities became convinced that relative domestic financial stability had been restored. In view of the expanded supply capacity, the authorities initiated late in 1979 a moderately expansionary fiscal policy. The economic and financial developments in this phase are described in Section III below.

Qatar's exchange system is free of restrictions and the import regime is liberal, most import items are taxed at the rate of 2.5 per cent. The Qatar riyal is pegged to the SDR at QR 4.7619 per SDR 1 with margins around the SDR parity of 7.25 per cent. The U.S. dollar is the intervention currency.

III. Recent Developments and Policies and the Prospects for 1982

1. The energy sector and investment policy

Because of the limited oil reserves, the Government has been pursuing a conservation policy with regard to oil production. Accordingly, output was reduced by 7 per cent in 1980 and, starting on June 1, 1981, oil production in Qatar became subject to a ceiling of 0.4 million b/d, which is about 15 per cent below the average level of production in 1980. This production ceiling is expected to remain in effect indefinitely. Qatar's oil export prices were reduced by about US\$1.75 per barrel on November 1, 1981 in line with the recent OPEC agreement on a unified export price structure. Present export prices are just over

US\$35 per barrel Oil exports in 1981 are estimated at about 148 million barrels, about 14 per cent below the 1980 level However, due to higher export prices in 1981, oil export earnings are estimated to have remained approximately unchanged at about QR 19 4 billion

Exploration for oil is continuing in Qatar with the main emphasis being placed on seismic surveys in offshore areas In the period ahead, it is planned to proceed with the drilling of a well in the region of the north gas field where it is believed oil might be found The principal development project currently under consideration in the energy sector is the construction of a liquefied natural gas (LNG) plant, which would draw on the reserves of the north gas field, ^{1/} with a projected production capacity of 6 million tons of LNG per annum Negotiations are still in progress with prospective contractors and partners in the project and it is too early to tell when these will be completed This multibillion dollar project is estimated to require some six or seven years to implement

The Qatar representatives stated that government policy continued to aim at achieving industrial and commercial diversification. For that purpose the Industrial Development Technical Centre (IDTC) was established to coordinate project planning and supervision The IDTC has been involved in most of the larger existing industrial projects including refinery, fertilizer, iron and steel, petrochemical, and cement projects, and in the establishment of the industrial port of Umm Said and the Salwa Industrial Estate in Doha In 1980 a law for encouraging and organizing industrialization was introduced Various incentives could be granted under the law, including exemption from import duties, protection, and concessional loans Other incentives extended to industry include land leases at nominal rents, provision of road links, tax holidays, free or cheap gas, electricity, and water, official guarantees for foreign loans, and facilitation of entry of foreign workers and assistance with workers' housing

2 Overall level of activity, prices, and wages

In late 1979 the economy of Qatar started to respond to a renewed expansion in budgetary outlays and the pace of economic activity quickened in 1980 and 1981 Further economic expansion is expected in 1982 in response to a continuing rise in government current and investment spending Investment in infrastructure and social construction has been rising and has stimulated activity in the service and trade sectors The pace of activity in the construction sector quickened in 1981 due to expanded government office building, the extension and development of the Doha municipal area, and a high level of road and housing construction Agriculture in Qatar continues to be constrained by various natural handicaps while the fishing sector has been supplying the bulk of fish for domestic consumption and shrimp for both domestic consumption and export

^{1/} Current estimates place the field's gas reserves at about 300 trillion cubic feet, the equivalent of about 52 billion barrels of oil

Comprehensive information on employment and wages is not available. The economy is heavily dependent on expatriate workers, some estimates place the share of expatriates at 85 per cent of the private sector labor force and at about 50 per cent of that in the public sector. With the pickup in economic activity in 1979, the demand for expatriate labor resumed and was reflected also in rising wages. The representatives of Qatar stated that official policy aimed at minimizing the need for large increases in foreign labor, and that steps were being taken to lessen the dependence on expatriate labor for skilled and managerial posts. Foreign companies are being required to provide training facilities for Qatari employees, a vocational training center has been established, and Qatari contractors enjoy tendering privileges for some contracts.

The higher level of activity has had a moderate impact on the demand for imports and on the price level, with the impact of higher imports of construction and household consumption goods on total imports being largely matched by a decline in imports of capital goods due to the completion of some major investment projects. With respect to prices, the consumer price index, which the Ministry of Economy and Commerce commenced compiling in 1980, showed an annual average rise of 7 per cent in 1980 and a rise of 8 per cent for the first nine months of 1981 over the similar period of 1980. However, actual inflation rates are believed to be somewhat higher than shown by the index. The acceleration in price increases in 1981 was partly attributable to higher inflation rates abroad and partly to rising domestic demand, notably reflected in increased housing rents. To ensure adequate supplies in the market, the Supplies Department of the Ministry of Finance and Petroleum imported a range of basic consumer products. Some sales of these commodities are at prices below procurement cost. Cement and poultry products are subject to price controls. Gasoline is sold at less than its international market value and water and electricity are provided free of charge.

3 Fiscal policy

Qatar's oil revenues increased considerably in 1979 and 1980 in response to sharp rises in oil export prices in these two years. Despite this large increase in revenues, the authorities opted for measured growth in expenditure with the intention of avoiding the difficulties and pressures that were experienced in 1974-77. The slower growth rate in expenditures relative to revenues caused the budgetary surplus before net lending and equity participation to double and redouble during 1979 and 1980, reaching QR 8 billion in the latter year. These surpluses were reflected in the increase in the Government's foreign assets and in its domestic lending as well as in the acquisition of equity. Preliminary actual data for 1981 show a stagnation in total revenues at QR 19 billion because further increases in oil export prices, which were relatively small, had been offset by a decline in output. Expenditures in 1981 rose by about 25 per cent, with almost equal growth rates for investment and current spending. The result was that

the budgetary surplus before net lending and equity participation decreased to QR 5 4 billion in 1981. Provisional data on net lending and financing show the preponderant part of the surplus being reflected in foreign and domestic lending, and in a further buildup of the Government's foreign assets.

The 1982/83 budget covers 18 months of the Hijri year 1/ and in formulating policy for this period, the authorities faced major new conditions. On the one hand, revenues were expected to decrease because of the recent OPEC decision on oil prices coupled with the Qatar Government's decision to place a ceiling on oil output. On the other hand, expenditure needs continued to expand. With respect to current expenditures there were the recurrent costs of the newly completed social programs and higher security expenses. There was also the continued expansion in the development effort, although in the 1982/83 budget an effort was made to estimate capital allocations more realistically than before.

Taking two thirds of the budget estimates, it was projected that revenues in the first 12 months of the new fiscal period would approximate QR 18 billion and total expenditures QR 16 billion. However, considering delays in project implementation, investment outlays might be some QR 1 billion less than two thirds of allocations. These expectations would result in a budgetary surplus of the order of QR 3 billion in the period up to November 1982. The Qatar representatives stated that the Government's lending and equity acquisition activities would continue but, in view of the sharply reduced surplus, at a much curtailed pace. There was no intention to allow a drawdown of deposits. Overall, the Qatar representatives were anticipating roughly no change, or possibly a small increase, in the total of the Government's domestic and foreign deposits.

4. Monetary developments and policies

With the pickup in government expenditures, the rate of increase in domestic liquidity rose in 1980 to 17 per cent and was rising faster in 1981. On the basis of projected budgetary outlays for 1981, it was tentatively estimated that domestic liquidity expansion for the year might be about 35 per cent. 2/ The growth in the monetary aggregates in 1982 is expected to approximate the average for 1980-81, reflecting expansion in government spending at a rate similar to that recorded in

1/ This change was intended to facilitate the budgetary preparatory process that was increasingly falling in the summer months. Moreover, there was a need for better synchronization of the State's budget with the budgetary cycles of other public organizations.

2/ An unexplained feature of developments in 1980-81 was that there had been some decline in domestic liquidity in the second half of 1980. The seemingly high level of expansion in the first half of 1981 might to some extent represent a recovery from that trough. The Qatar authorities are trying to determine the reasons for these changes.

these two years. The Qatar representatives said that the authorities intended to safeguard the degree of price stability they had achieved recently and for that purpose would monitor developments and take measures if needed. The Qatar representatives expressed their concern over the impact of higher international interest rates on domestic monetary management. Although international interest rates were now declining, they remained well above domestic rates. The Qatar representatives said that, although the outflow of funds abroad had been substantial, no serious problems had been encountered so far. The authorities are aware that there are a number of measures that could be considered including raising domestic interest rates, generating doubts about the absence of exchange risks, exercising moral suasion on the banks, and introducing reserve requirements on foreign currency deposits (or on the banks' foreign assets). In fact, the Qatar Monetary Agency considered implementing some such measures but in the circumstances the authorities decided to wait for a while because they wished to maintain interest rates at moderate levels for reasons of price stability and the needs of the domestic economy. The authorities intend to keep the situation under review and would act if necessary. In the authorities' view, restricting the movement of capital was neither an acceptable nor an appropriate policy. The mission observed that in Qatar's present circumstances these outflows constituted part of the offset to the surplus on the current account of the balance of payments and so long as the authorities judged that legitimate credit requirements for private sector activities were being met, there should not be cause for concern.

5. External sector policies

The Qatar representatives noted that in the past the policy reaction to the outflow of funds had been to appreciate the currency in marginal steps against the U.S. dollar. The Qatar riyal was appreciated on four occasions in the first half of 1980 by a total of about 1.8 per cent against the U.S. dollar. The limit of this policy was reached in mid-1980 when the U.S. dollar entered a strengthening phase and, since June 1980, the riyal/dollar rate has remained unchanged, despite the dollar's appreciation, with the result that the riyal/SDR rate has moved beyond a margin of 7.25 per cent of the rate of QR 4.7619 per SDR. It was emphasized by the Qatar representatives, however, that the recent period of stability in the riyal/dollar rate did not signify a change in Qatar's exchange rate policy as described in SM/80/37. Similarly, the authorities stated that there were no changes in foreign reserve management policy that was described in that report. ^{1/}

Qatar's external position strengthened substantially in 1980-81. Oil export earnings averaged about US\$5 billion in these two years, about 45 per cent above the 1979 level, and non-oil export earnings also increased substantially. Imports (excluding defense-related imports), on the other hand, remained approximately unchanged in 1980 from the

^{1/} For a full statement on Qatar's exchange rate and reserve management policies, see SM/80/37, p. 6.

1979 level of US\$1.4 billion and little change was estimated for 1981. The deficit on the services and private transfers account rose from US\$0.6 billion in 1979 to an estimated US\$1.5 billion in 1981, mainly reflecting higher workers' remittances and defense imports (which are included under other payments). Official grants to LDCs continued at a high level, increasing from about US\$0.3 billion in 1979 to an estimated US\$0.4 billion in 1981. The overall balance of payments surplus has averaged about US\$1.1 billion in the three years 1979-81. Qatar's merchandise trade surplus is expected to decrease significantly in 1982 as imports are expected to rise, while oil receipts are forecast to decrease because of the price and export volume reductions. Assuming a significant decrease in certain government payments abroad, however, the surplus on goods and services account in 1982 is projected at about US\$2.9 billion, which is approximately equal to the average for 1980-81.

IV Staff Appraisal

Recent economic and financial developments in Qatar have been favorable. Following a period of retrenchment in 1978, government expenditures were increased in 1979 and 1980. Despite this, the fiscal surplus doubled in each of these two years due mainly to the steep rises in oil prices. In the latter year, the surplus was equivalent to nearly one half of the oil revenues. In 1981 the fiscal surplus decreased as total revenues stagnated while expenditures continued to grow. This pattern of fiscal developments was reflected in the external accounts. The balance of payments current account surplus rose rapidly in 1979-80 before falling somewhat in 1981. The rate of growth in domestic liquidity averaged about 25 per cent in 1980-81. Domestic price increases have been moderate.

The principal factor accounting for this favorable performance was a well-managed fiscal policy which has so far succeeded in avoiding the problems associated with the excessive expansion of the mid-1970s as well as those that resulted from the sudden cutback that followed the expansionary period. For 1982 the authorities are intending to continue on the same path of growth in government expenditures while maintaining domestic financial stability and this is considered to be feasible in view of the adequate supply facilities. The fiscal surplus in 1982 is anticipated to decrease substantially due to the expected decline in oil revenues resulting from the ceiling on output and lower prices, while the external surplus is projected to stabilize or possibly to decline somewhat. Qatar has been pursuing appropriate external sector policies. Particular mention should be made of the generous grants to LDCs equivalent to nearly 10 per cent of Qatar's oil revenues.

Qatar Fund Relations 1/

Date of membership	September 1972
Status	Article VIII
Quota	SDR 66 2 million.
Exchange system	The Qatar riyal is pegged to the SDR at QR 4 7619 per SDR 1 with margins around the SDR parity of 7.25 per cent. The riyal was revalued several times against the U S. dollar (the intervention currency) for a cumulative appreciation of 3 5 per cent in 1979 and 1 8 per cent in 1980, in 1981 the riyal/dollar exchange rate remained unchanged. The buying and selling rates for the U S dollar quoted by the Qatar Monetary Agency are now QR 3.6385 and QR 3 6415, respectively
Use of Fund resources.	Qatar has never drawn on the Fund. Fund holdings of riyals are equivalent to SDR 48 1 million or 72.6 per cent of quota
SDR Department	Qatar became a participant in March 1978, its SDR holdings amount to SDR 8.6 million, equivalent to 67 per cent of net cumulative allocations.
Trust Fund	Not eligible for loans. Qatar ceded to the Trust Fund US\$3 2 million in the distribution of profits from gold sales.
Gold distribution	Acquired 17,117 fine ounces.
Subsidy Account	Qatar has not contributed
Loans to the Fund	Qatar did not participate in lending to the Fund either for the oil facility, for the supplementary financing facility, or for financing enlarged access policy.
Missions.	The last consultation discussions were held in December 1979.
Technical assistance	One expert (in the foreign exchange field) was assigned to the Qatar Monetary Agency under the Central Banking Department program for two years ended November 1979, the post has since been discontinued

1/ As of December 31, 1981

Qatar Basic Data

Area 10,365 square kilometers
Population 216,000 (1980 estimate)

	1977	1978	1979	1980	1981
Petroleum sector					
Crude oil production (million barrels)	162.3	178.5	185.4	172.5	147.6
Doha price index			100.0	106.8	115.4

(In millions of Qatar riyals)

	1977	1978	1979	1980	Prelim Actual 1981	Budget 1/ 1982/83
Government finances						
Revenues	8,154.4	8,225.1	12,090.3	19,003.6	19,050.0	27,127.3
Oil and gas revenues	7,450.8	7,420.8	11,220.2	17,453.9	17,200.0	23,887.7
Investment income and other	703.6	804.3	870.1	1,549.7	1,850.0	3,239.6
Expenditures	7,317.8	6,517.7	8,269.7	10,937.0	13,700.0	24,160.9
Current expenditures	3,773.1	3,853.3	5,566.1	7,848.6	9,768.1	16,338.6
Of which foreign grants	(582.1)	(291.3)	(1,057.8)	(1,169.4)	(1,500.0)	(1,579.9)
Capital expenditures	3,544.7	2,664.4	2,703.6	3,088.4	3,931.9	7,822.3
Surplus	836.4	1,707.4	3,820.6	8,066.6	5,350.0	2,966.4
Net lending and equity participation	1,827.0	1,169.3	887.0	3,457.6	4,457.9	
Change in government domestic and foreign deposits	-1,017.3	811.2	3,019.1	4,551.8	1,447.7	
Discrepancy	26.7	-273.1	-85.5	57.2	-555.6	
	1977	1978	1979	1980	Jan -Sept 1980	1981
Changes in						
Money and quasi-money	862.3	548.1	395.8	765.8	921.4	1,787.2
Money	510.9	219.4	185.0	-217.4	92.1	751.2
Quasi-money	351.4	328.7	210.8	983.2	829.3	1,036.0
Foreign assets (net)	293.7	427.5	207.7	743.4	668.0	1,321.8
Net domestic assets	568.6	120.7	187.9	22.2	253.2	465.6
Credit to private sector	904.6	425.5	389.3	414.7	328.4	578.6
Government deposits (net) (increase-)	-86.6	-220.5	-40.0	-165.9	138.4	29.6
Other items (net) (increase-)	-249.4	-84.3	-161.4	-226.6	-213.6	-142.6

1/ Eighteen months.

Qatar Basic Data (concluded)

(In per cent)

	1977	1978	1979	1980	Jan -Sept 1981	Sept 1981
Rate of change						
Money and quasi-money	32	15	10	17	20	4
Credit to private sector	58	17	13	13	10	6

(In millions of U.S. dollars)

	1977	1978	1979	1980	Prov 1981	Est 1982
Balance of payments						
Goods and services	473	707	1,884	3,010	2,903	2,900
Exports, f o b	2,093	2,386	3,883	5,575	5,825	5,600
Of which oil exports	(2,057)	(2,305)	(3,692)	(5,363)	(5,324)	(5,000)
Imports, c.i.f.	-1,227	-1,184	-1,425	-1,437	-1,457	-1,600
Trade balance	866	1,202	2,453	4,233	4,363	4,000
Services and private transfers (net)	-393	-495	-574	-1,219	-1,455	-1,100
Grants to less developed countries	-147	-75	-275	-313	-413	-400
Balance on goods, services, and official grants	326	632	1,604	2,703	2,495	2,500
Official capital	120	161	86	-154	-83	
Other capital (including errors and omissions)	-530	-535	-844	-985	-1,573	
Overall balance (deficit-)	-84	258	851	1,567	832	
Net foreign assets (end of period)	1,952	2,275	3,223	4,360	5,700	
Government	1,464	1,661	2,533	3,964	4,377	
Monetary Agency	152	203	277	333	407	
Commercial banks	336	411	413	558	915	