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**FOR
AGENDA**

EBS/75/105

CONFIDENTIAL

March 31, 1975

To: Members of the Executive Board
From: The Secretary
Subject: Qatar - Exchange System

Attached for consideration by the Executive Directors is a paper on the exchange system of Qatar, together with the staff's analysis and recommendation.

This subject is tentatively scheduled for discussion at an Executive Board meeting on Friday, April 4, 1975.

Att: (1)

INTERNATIONAL MONETARY FUND

Qatar - Exchange System

Prepared by the Treasurer's Department and the
Middle Eastern Department

(In consultation with the Exchange and Trade Relations Department,
the Legal Department and the Research Department)

Approved by Walter O. Habermeier and John W. Gunter

March 31, 1975

I. Introduction

In a cable dated March 18, 1975 (EBS/75/97), the Government of Qatar has informed the Fund that from March 19, 1975 exchange rates for the Qatar riyal would be maintained on the basis of the par value in terms of the SDR, i.e., QR 4.76190 per SDR, rather than by being pegged on the U.S. dollar. Qatar will continue to avail itself of wider margins of 2½ per cent around the par value.

To maintain the value of the Qatar riyal in terms of the special drawing right as it is valued under Rule 0-3, the authorities will establish daily buying and selling rates for the pound sterling on the basis of the par value for the Qatar riyal and the transaction value of the pound sterling in terms of the special drawing right.^{1/} In terms of the U.S. dollar, to which the Qatar riyal was pegged until now, the change represents an appreciation of the Qatar riyal of approximately 4 per cent in comparison to the rates prevailing before the peg to the SDR. Buying and selling rates at the reopening of the exchange market on March 19 were £0.1084 and £0.1095 per Qatar riyal, representing a spread of 1 per cent between the buying and selling rates.

The initial par value for the Qatar riyal of 0.186621 gram of fine gold per Qatar riyal (equivalent to QR 4.76190 per special drawing right or SDR 0.21 per Qatar riyal) became effective on June 14, 1973. The Qatar riyal in May 1973 had replaced the Qatar/Dubai riyal with the same par value.

^{1/} The operation of the new exchange system is described in the Appendix.

II. Economic Background and Staff Appraisal

Owing to the increase in petroleum prices since October 1973, Qatar's balance of payments position has been very strong. The current account surplus increased from the equivalent of SDR 140 million in 1973 to an estimated surplus of SDR 1,025 million in 1974. Even though production of petroleum may be reduced somewhat and prices may have tended to weaken recently, the surplus in 1975 is likely to remain substantial. Qatar has granted Arab and other developing countries sizable amounts of aid in the form of grants and low-interest loans. Nevertheless, its international reserves increased from the equivalent of SDR 320 million at the end of 1973 to an estimated SDR 700 million at the end of June 1974. Since that time it is estimated that they have increased further.

In the recent past the economy of Qatar has been subject to a considerable increase in the domestic price level. Part of the increase resulted from the sharply increased level of government development expenditures reflecting the efforts of the Government to improve infrastructural facilities and to diversify the economy. Additionally, there has been an increase in the prices of imported goods, due both to rising price levels in supplier countries and to the weakening in recent months of the U.S. dollar in terms of the currencies of a number of industrialized countries. By linking the Qatar riyal to the SDR, the authorities intend partially to reverse the inflationary pressures emanating from abroad and to reduce the fluctuation of the value of the riyal in terms of the currencies of Qatar's major trading partners and thus to contribute to exchange rate stability.

The staff believes that the actions taken by the Qatar authorities are not inappropriate in the circumstances described.

III. Proposed Decision

The following draft decision is submitted for the consideration of the Executive Board:

1. With effect from March 19, 1975 Qatar advised the Fund that it ceased to peg the Qatar riyal to the U.S. dollar and will maintain the exchange rates for the Qatar riyal on the basis of QR 4.76190 for one special drawing right. Qatar will continue to avail itself of wider margins of 2.25 per cent.

2. The Fund notes the intention of the Qatar authorities to maintain the exchange rate of the riyal in terms of the value of the special drawing right as defined by Rule 0-3 and to continue to avail themselves of wider margins.

Qatar: Determination of Market Exchange Rates

Before the present modification of the exchange system, the Qatar riyal was pegged to the U.S. dollar at the parity rate of QR 3.94737 per U.S. dollar. The intervention currency was the pound sterling. The authorities daily determined buying and selling rates for sterling on the basis of the riyal/U.S. dollar parity rate and the rate for the U.S. dollar against sterling in London. The authorities have indicated that with effect from March 19, 1975 the Qatar riyal has been pegged on the special drawing right, at a rate of QR 4.76190 per SDR 1 or SDR 0.210000 per Qatar riyal. The authorities continue to avail themselves of wider margins of 2½ per cent around the par value. On the basis of the par value in terms of the SDR, the upper and lower margins for the Qatar riyal in terms of the special drawing right can be calculated:

Upper: SDR 0.21 x 1.0225 = SDR 0.214725 per QR

Lower: SDR 0.21 x 0.9775 = SDR 0.205275 per QR

As special drawing rights are not bought and sold in the exchange markets, the exchange rate of the Qatar riyal will continue to be maintained through central bank purchases and sales of currency or currencies. The upper and lower limits within which quotations for currencies need to be maintained will change from day to day in accordance with the movements of the transactions rate of currencies in terms of the SDR as determined under Rule 0-3. For example, the transactions rate for sterling, the intervention currency, was £0.518481 per SDR on March 17, 1975. The band of quotations of the riyal against sterling within which buying and selling rates must fall can accordingly be calculated:

Upper margin: SDR 0.214725)		£0.111331 per QR
)		
Central rate: SDR 0.210)	x 0.518481 =	£0.108881 per QR
)		
Lower margin: SDR 0.205275)		£0.106432 per QR

The Qatar authorities have indicated that they will determine daily the buying and selling rates for sterling on the basis of the sterling/SDR transaction rate. In view of the time difference between Qatar and Washington, D.C., the calculation of the middle rate will be based on the previous day's sterling/SDR transactions rate.