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**FOR
AGENDA**

EBS/76/9

CONFIDENTIAL

January 6, 1976

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 has been tentatively scheduled for discussion Wednesday, January 14, 1976.

Att: (1)

INTERNATIONAL MONETARY FUND

Qatar - Exchange System

Prepared by the Middle Eastern Department

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

Approved by John W. Gunter

January 5, 1976

I. Introduction

In a communication dated December 25, 1975 (a copy of which is attached) the Government of Qatar has informed the Managing Director that effective January 15, 1976, exchange rates for the Qatar riyal (QR) will be maintained within margins somewhat wider than 2.25 per cent but not exceeding 7.25 per cent around the par value of the Qatar riyal equivalent to QR 4.76190 = SDR 1.

Effective March 19, 1975, Qatar ceased to peg the Qatar riyal to the U.S. dollar and began to maintain the exchange rates of the riyal on the basis of its par value in terms of the SDR (EBS/75/105, March 31, 1975). It also continued to avail itself of wider margins of 2.25 per cent. Qatar's intervention currency is the pound sterling with the daily exchange rate for the riyal being established by the Qatar Monetary Agency (QMA) on the basis of the previous day's sterling/SDR transaction rate. From March 19, 1975 to October 18, 1975, the QMA established a daily middle rate which corresponded exactly to the sterling/SDR rate communicated by the Fund. Since October 18, 1975, the QMA has set the daily middle rate for the riyal at approximately the upper boundary of the 2.25 per cent margin. This effective revaluation of the riyal relative to the pound sterling was in response to the recent appreciation of the U.S. dollar relative to the SDR and in order not to depreciate the riyal relative to the Bahrain dinar and the United Arab Emirates (U.A.E.) dirham both of which had remained pegged to the U.S. dollar at the time Qatar changed the link of the riyal from the dollar to the SDR.

Background information on recent developments in the Qatari economy and the balance of payments is provided in the Staff Report for the 1975 Article VIII Consultation (SM/75/300), dated December 22, 1975.

II. Staff Appraisal

During the last two years the economy of Qatar has been subject to substantial inflationary pressures. The rise in prices is mainly attributable to the sharp increase in government domestic spending, the increase in prices

of imported goods and physical bottlenecks affecting the flow of goods and services. This has prompted the Government to introduce several measures, including exchange measures, designed to moderate the rate of increase in the domestic price level.

The exchange rate policy of the authorities aims at preventing further depreciation of the Qatar riyal against the U.S. dollar should the dollar appreciate in terms of the SDR as it has done in the recent past. Additionally, the authorities are seeking to avoid depreciation of the Qatar riyal relative to the Bahrain dinar and the U.A.E. dirham; both these currencies had remained pegged to the U.S. dollar at the time Qatar changed the link of the riyal from the dollar to the SDR.

The authorities' decision to maintain exchange rates for the riyal within margins in excess of 2.25 per cent is intended to provide needed flexibility in exchange rate management in pursuit of the above-mentioned objectives and will apparently be operative primarily on the side of riyal appreciation against the SDR. The Qatar riyal will now be regarded as a floating currency and subject to the Guidelines for the Management of Floating Exchange Rates. The Qatari authorities have stated their intention to collaborate with the Fund.

III. Proposed Decision

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

1. Qatar has notified the Fund that, while continuing to maintain exchange rates for the Qatar riyal on the basis of QR 4.76190 for one special drawing right, it will with effect from January 15, 1976 permit rates within margins somewhat wider than 2.25 per cent but not exceeding 7.25 per cent.

2. The Fund notes the action taken by the Qatari authorities and welcomes their intention to collaborate with the Fund in accordance with the Articles of Agreement and the decisions of the Fund. The Fund will remain in close contact with the Qatari authorities and in this regard the Managing Director will take appropriate initiatives.

Attachment

December 25, 1975

THE HONOURABLE H. JOHANNES WITTEVEEN
MANAGING DIRECTOR
INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

AS YOU KNOW, EFFECTIVE MARCH 19, 1975, QATAR HAS BEEN MAINTAINING EXCHANGE RATES FOR THE QATAR RIYAL (QR) ON THE BASIS OF QR 4.76190 PER SPECIAL DRAWING RIGHT AND HAS AVAILED ITSELF OF WIDER MARGINS OF 2½ PERCENT. IN VIEW OF RECENT EXCHANGE RATE DEVELOPMENTS AND OUR DESIRE TO MAINTAIN THE STABILITY OF THE EXCHANGE RATE OF THE QATAR RIYAL AGAINST OTHER CURRENCIES OF THE AREA WE ARE FINDING IT DIFFICULT TO OBSERVE THESE MARGINS. THE GOVERNMENT OF QATAR HAS, THEREFORE, DECIDED TO MAINTAIN RATES FOR THE QATAR RIYAL WITHIN MARGINS SOMEWHAT WIDER THAN 2½ PERCENT BUT NOT EXCEEDING 7½ PERCENT WITH EFFECT FROM JANUARY 15, 1976. QATAR WILL REMAIN IN CLOSE CONTACT WITH THE IMF AND WILL COLLABORATE WITH IT FULLY IN ACCORDANCE WITH THE ARTICLES OF AGREEMENT AND THE DECISIONS OF THE FUND.

WITH KINDEST REGARDS AND BEST WISHES FOR A HAPPY AND PROSPEROUS NEW YEAR.

Abdul Kadir Qadi
Director of Financial Affairs
to the State of Qatar