

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

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Statement by Mr. Finaish on Qatar
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The major thrust of economic policies in Qatar in recent years has been to use its enlarged financial resources derived from oil exports to strengthen and broaden the economy's productive base and, thereby, lay the foundation for sustained and diversified growth in the future. A rapid increase in public expenditures in the mid-1970s in pursuit of these objectives was accompanied by a considerable build-up of pressures on real resource availabilities, resulting in rising inflation and a very large inflow of expatriate labor. In view of these developments, the public expenditure policy had to be tightened considerably in 1978. The success of this policy change in containing inflation and the growing supply capacity of the economy enabled the authorities to initiate in late 1979 a moderately expansionary fiscal policy. This policy stance has since been continued, representing a balance between the country's development objectives and the need to maintain a reasonable level of financial stability.

There has been a significant reduction in the production of oil--the mainstay of the economy--since 1979. Two important factors behind this development have been changes in market conditions and increased emphasis on the conservation of the country's limited reserves. The latter is also reflected in the setting of a ceiling on oil production in mid-1981. The increased concern for conservation has been accompanied by a stepping up of exploration for new oil reserves. In the related area of natural gas, a project of considerable importance currently under active consideration is the construction of a liquified natural gas plant as an initial step toward the development and exploitation of the North Field, considered to be one of the largest single fields in the world for gas unassociated with oil extraction. This project is estimated to take about seven years to implement and to cost about US\$5-6 billion. Another noteworthy development in the energy sector is that the waste involved in the flaring of gas associated with oil extraction has been reduced from over 70 per cent in 1976 to about 10 per cent in 1980 by increasing the use of this gas in industrial projects.

Sizable progress has been made in diversifying the productive base through industrial development. A number of large-scale industrial projects have either been completed or are under implementation, both in industries based on the country's chief natural endowments--such as fertilizer and petrochemicals--and in other industries such as iron and steel, cement and flour milling. A major project that went onstream in 1981 was the country's first gas-based petrochemical plant. An important step taken by the authorities to promote private sector industrial development--especially small- and medium-scale enterprises--was the introduction of a law in 1980 whereby the Government could provide a

range of financial incentives to industrial investors. Private industrial development in recent years has also been aided by vast government investments in basic infrastructure. In addition, these investments have stimulated activity in the service and trade sectors.

Reflecting the easing of the fiscal stance in late 1979, government expenditures increased by about 30 and 25 per cent respectively in 1980 and 1981. With expenditures growing more or less steadily, the budgetary position over this period has been determined chiefly by the behavior of revenues--derived predominantly from oil--which has been quite variable. The large increase in revenues in 1980, boosted by oil price adjustments, more than doubled the budgetary surplus. The surplus declined by about one third in the following year as oil revenues changed very little. An even more substantial fall in the surplus is expected for 1982 as oil revenues are forecast to decrease--on account of recent changes in both oil prices and output--while expenditures are expected to continue to increase steadily.

Since changes in the level of public expenditures are the principal determinant of liquidity creation in the country, the pace of liquidity growth quickened with fiscal relaxation in 1980. However, as fiscal expansion was kept at a fairly moderate rate, liquidity growth was prevented from being excessive. This relatively restrained financial growth contributed to keeping inflation at a moderate level.

The recent increase in international interest rates has induced a sizable outflow of capital. The authorities' assessment is that in spite of the significant magnitudes involved, the outflow has not so far caused any major problems, such as a shortage of funds to meet the credit needs of the private sector. Nevertheless, they have considered a set of measures that might be taken to check the outflow in case a need arises--such as raising domestic interest rates and introducing reserve requirements on foreign currency deposits or on banks' foreign assets--and are monitoring the situation closely.

Qatar's external position strengthened substantially during 1980-81 on account of a faster growth of oil revenues. A sizable increase also took place in non-oil export earnings and foreign investment income. However, the country's external position is expected to weaken significantly in 1982 as oil revenues are forecast to decline.

Finally, Qatar continues to maintain a liberal trade and exchange system and has in recent years provided substantial financial assistance to other developing countries, mostly at concessionary terms.