SM/87/286

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December 3, 1987

To: Members of the Executive Board

From: The Secretary

Subject: Qatar - Staff Report for the 1987 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1987 Article IV consultation with Qatar, which will be brought to the agenda for discussion on a date to be announced.

Mr. Noursi (ext. 7117) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

QATAR

Staff Report for the 1987 Article IV Consultation

Prepared by the Staff Representatives for the 1987 Article IV Consultation with Qatar

Approved by P. Chabrier and S. Kanesa-Thasan

December 2, 1987

I. Introduction

The 1987 Article IV consultation discussions with Qatar were held in Doha during the period October 17-24, 1987. The Qatar representatives were led by the Director-General of the Qatar Monetary Agency (QMA) and included senior officials of the QMA, the Ministry of Finance and Petroleum, and other government ministries and public bodies. The mission was composed of Messrs. H. Handy (Head), E.J. Bell, J.G. Borpujari, and D.B. Noursi, and Mrs. J. Polk (secretary), all of MED.

Qatar accepted the obligations of Article VIII, Section 2, 3, and 4 of the Fund's Articles of Agreement on June 4, 1973. The last consultation discussions were held in October 1985 and the Staff Report (SM/85/342), together with the report on Recent Economic Developments (SM/86/12), was discussed by the Executive Board on February 5, 1986. Further information on relations with the Fund is given in Appendix II. The World Bank has not been active in Qatar in recent years.

II. Background and Recent Developments

Though a small oil producer relative to other OPEC members (Qatar's output is under 2 percent of total OPEC production), oil and gas dominate Qatar's economy accounting for about 85 percent of export receipts and more than half of government revenues in 1986. Proven oil reserves are sufficient to sustain current output for about 35 years, and there are vast reserves of nonassociated gas. The economy is heavily dependent on expatriates, with Qatari nationals comprising an estimated 25-30 percent of the total population of about 370,000. In a stable domestic political climate, Qataris enjoy one of the world's highest living standards.

Developments in Qatar in recent years have paralleled those in other oil-dependent countries of the region: falling oil receipts, reflecting weak world market conditions and output restraint, have necessitated a policy of fiscal retrenchment in order to limit international reserve losses (Table 1). Qatar's oil output declined from an average of 402,000 barrels per day (b/d) in 1984 to 334,000 b/d in 1986 (Table 2, Chart 1).

This, together with the precipitous fall in oil prices in 1986 caused export earnings from oil to fall to US$1.4 billion in 1986, approximately half their 1984 value. The thrust of the adjustment came through cuts in government expenditures. In 1986/87, total government expenditures were 14 percent lower in nominal terms than in 1984/85. 1/ This, however, went only part of the way toward offsetting the sharp contraction of revenue over the period (57 percent), with the result that the budget moved from an overall surplus in 1984/85 to a large deficit (equivalent to 42 percent of total government expenditure) in 1986/87. Despite the emergence of a large budget deficit, however, the expansionary impact of the budget on the domestic economy diminished over the period as net domestic government expenditures 2/--the primary source of stimulus to the economy--are estimated to have contracted by 22 percent from 1984 to 1986.

Table 1. Qatar and Other GCC Countries: 1/
Selected Indicators, 1982-86

	1982	1983	1984	1985	1986
Oil export earnings					
(annual percentage change)					
Qatar	-23.7	-31.1	-0.1	-6.2	-45.6
Other GCC	-31.4	-29.2	-9.2	-17.9	-34.9
Budgetary expenditure					
(annual percentage change)					
Qatar	-6.5	-9.2	-2.7	-14.8	0.5
Other GCC	1.6	-11.6	-7.8	-11.9	-8.8
Current account balance					
(as percentage of GDP)					
Qatar	14.8	6.3	13.4	13.0	-3.8
Other GCC	12.9	-0.6	-0.1	2.5	-5.0

Source: Staff estimates based on official statistics.
1/ Cooperation Council for the Arab States of the Gulf (GCC), which consists of Bahrain, Kuwait, Oman, Saudi Arabia, Qatar, and the United Arab Emirates.

1/ The fiscal year is based on the Hijri calendar: FY 1986/87 ended on February 28, 1987.
2/ Government expenditures net of domestic budgetary revenues and government purchases abroad.

Table 2. Qatar: Selected Economic Indicators, 1982-86

	1982	1983	1984	1985	1986
	(In millions of U.S. dollars)				
Oil exports	4,084	2,813	2,809	2,634	1,433
(In thousand b/d)	(323)	(279)	(386)	(280)	(308)
Balance of payments					
Current account	1,127	410	897	814	-189
Overall balance	-700	-607	339	108	-487
	(Annual percentage changes)				
Net domestic government expenditures 1/	-16.0	-32.6	25.0	-8.8	-14.5
Non-oil GDP (nominal)	11.4	0.8	6.7	-6.5	-2.1
Interest differential 2/	6.3	2.7	3.9	1.3	-0.1
Money supply	14.6	-0.9	22.0	9.2	11.2
Credit to private sector	23.7	8.6	10.2	18.5	24.6

Sources: Data supplied by the Qatar authorities and staff estimates.
1/ Government expenditures net of domestic budgetary revenues and government purchases abroad.
2/ Defined as the difference between the LIBOR rate on three-months U.S. dollar deposits and the interest rate on domestic deposits in Qatar riyals (7 percent).

Continued fiscal restraint helped to stem the deterioration in the balance of payments (Appendix I, Table 3). A further compression of imports was achieved over the period 1984-86 (5 percent in nominal dollar terms) and there was a significant reduction in estimated private capital outflow. At the same time, the traditional deficit in services and transfers was sharply reduced largely owing to an improvement in investment income. Though the overall external balance moved from a surplus in 1984 to a deficit of nearly US$500 million in 1986, the deterioration (US$800 million) was equivalent to only about half of the fall in the dollar value of export earnings over the period. At end-1986, international reserves remained very comfortable, representing four years of imports.

Monetary policy has played a limited role in the adjustment process. In part this has been due to the overwhelming influence of government expenditures in the economy, but it has also reflected a traditional reluctance to exercise an active interest rate policy as well as a lack of other instruments at the disposal of the authorities. However, maintenance of fixed interest rates in Qatar over the period 1984-86 while interest rates on world capital markets were falling sharply, led to a differential in Qatar's favor (Chart 2). This may partly explain why monetary growth remained relatively high during the period (averaging 14 percent annually) despite recessionary conditions and stable prices.

The substantial growth in bank claims on the private sector in the recessionary conditions that prevailed called into question the quality of bank portfolios. This was one consideration that prompted the authorities to strengthen banking supervision and to introduce a number of measures in 1986 aimed at preserving the soundness of the banking system. These included the introduction of reserve requirements for bank deposits (ranging from 1.5 percent to 4 percent). Also, the banks were required to maintain a ratio of capital and reserves to total assets of not less than 6 percent. Finally, the QMA announced its willingness to discount commercial instruments held by commercial banks.

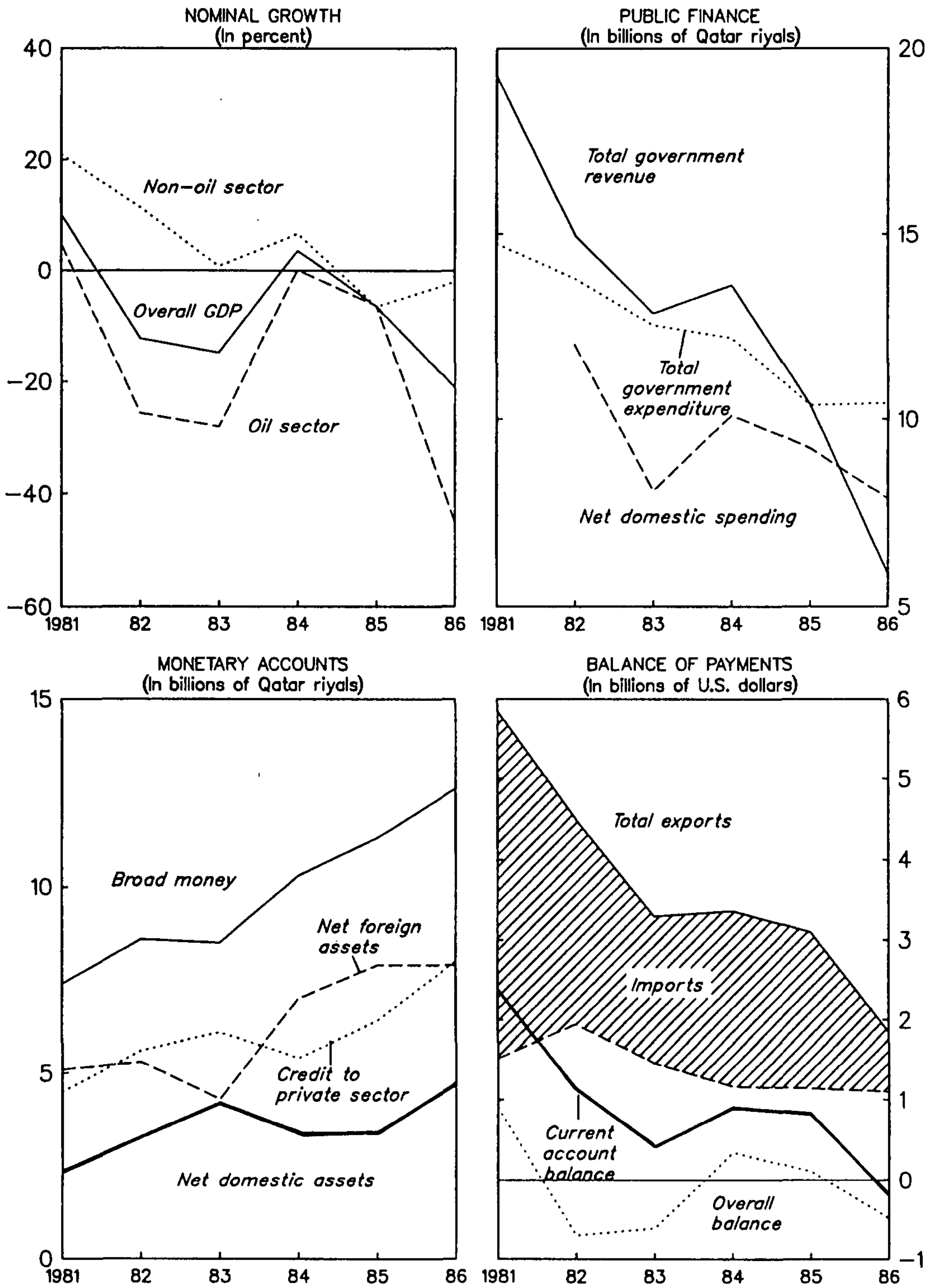
Developments in the non-oil sector have reflected not only the consequences of fiscal stringency but also an inevitable slowing down as limits to development and diversification in the non-oil sector were reached. Between 1984 and 1986, the non-oil sector contracted by about 8 percent in nominal terms, with large losses in construction and services. The manufacturing sector, which largely comprises a few oil- and gas-based industries, experienced difficulties owing to depressed world prices and domestic power shortages. The response of the authorities has largely been limited to the continuation of the long standing policy of support through input subsidies and the provision of low cost financing. 1/

Qatar's exchange and trade system continues to be free of restrictions. Although officially pegged to the SDR, the authorities have kept the exchange rate of the Qatar riyal vis-a-vis the U.S. dollar unchanged since June 1980 (QR 3.64 = US$1). With the subsequent fluctuations in the dollar/SDR exchange rate, the riyal has moved beyond the announced 7.25 percent margins. Indications are that the riyal has depreciated in nominal effective terms in the two-year period ended July 1987 (Chart 3). 2/

1/ Subsidies in Qatar, as in other GCC countries, are provided in a variety of ways. In addition to those just mentioned, subsidies are provided through the availability of government services without charge and official controls on the prices of certain basic commodities. Because of the diversity of subsidy mechanisms, it is not possible to provide any comprehensive quantitative estimates.

2/ In the absence of a suitable price deflator, real effective exchange rate indices are not calculated for Qatar.

CHART 1
QATAR
SELECTED ECONOMIC INDICATORS, 1981–86

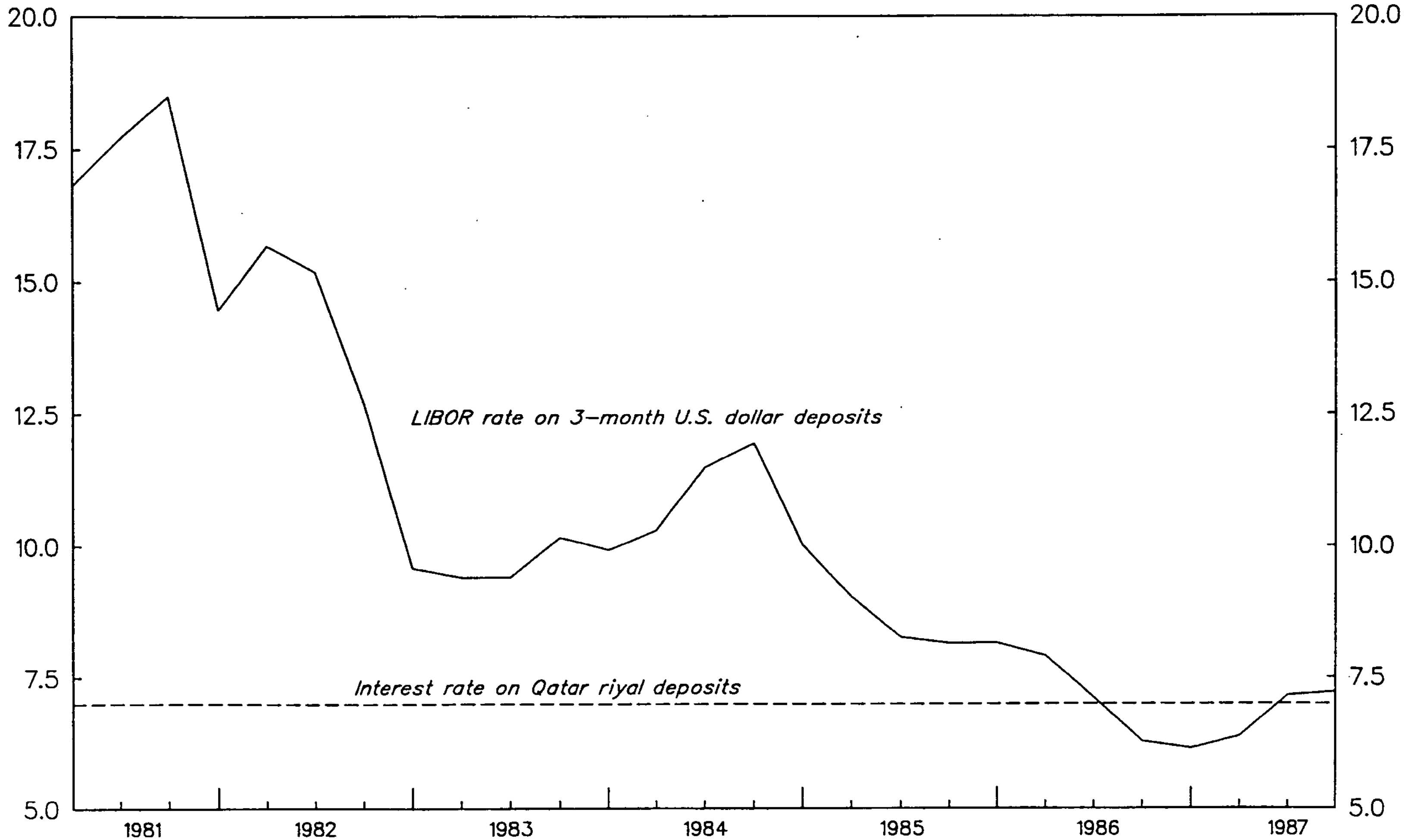


Sources: Qatar Monetary Agency and staff estimates.

CHART 2

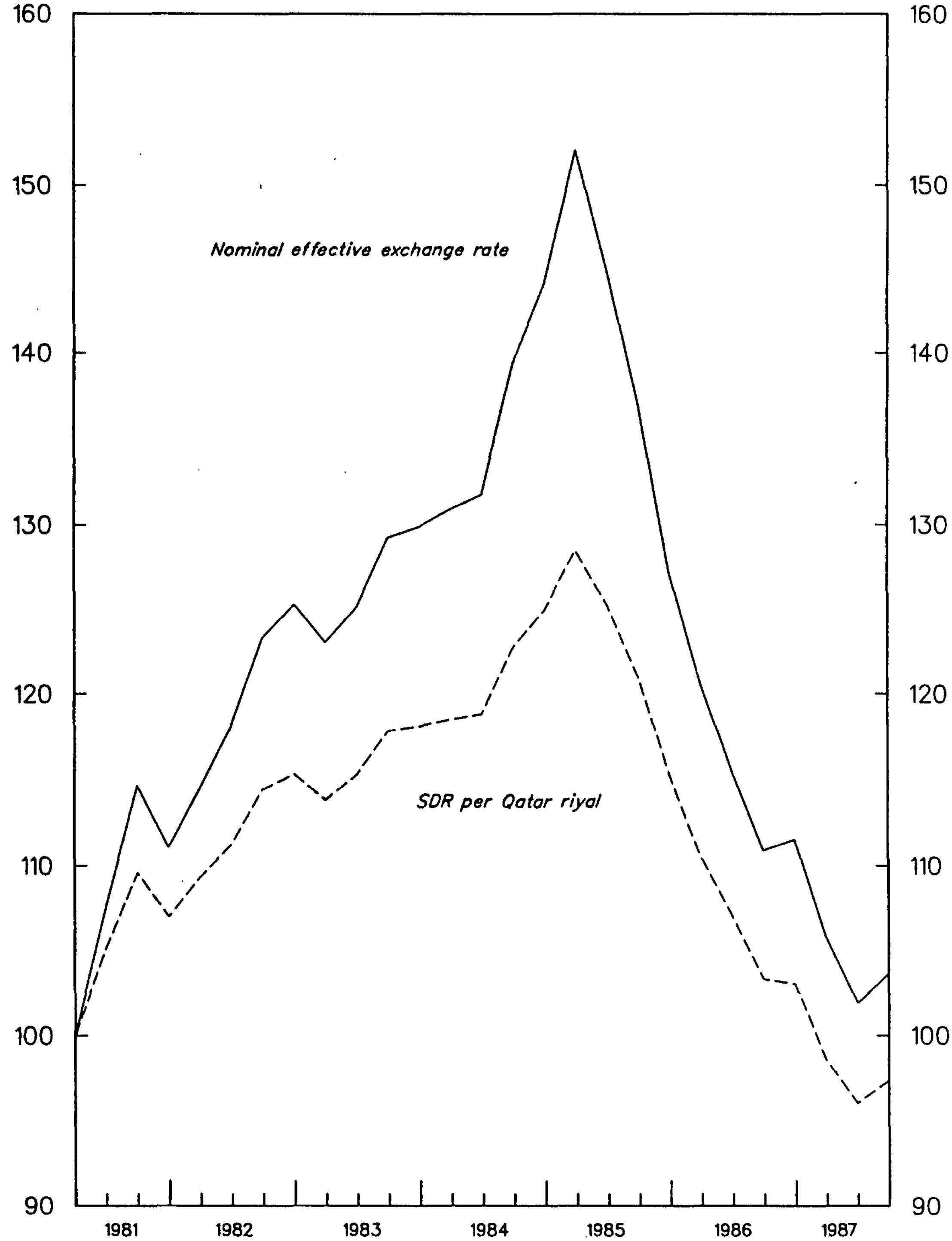
QATAR

INTEREST RATES, Q1 1981 TO Q3 1987



Sources: International Monetary Fund, *International Financial Statistics* and Qatar Monetary Agency.

CHART 3
QATAR
EFFECTIVE EXCHANGE RATE MOVEMENTS, 1981–87



Sources: International Monetary Fund, *International Financial Statistics*, and Information Notice System.

III. Policy Issues and Discussions

In concluding the last consultation with Qatar (EBM/86/21; 2/5/86), Executive Directors commended the authorities for following appropriate policies to adjust the economy to the sharp drop in earnings from oil exports. While noting the flexibility afforded by the substantial holdings of external reserves, it was stressed that government finances would need to be strengthened in the medium term through measures to raise non-oil revenues as well as to contain current spending through, for example, reducing subsidies. Directors also emphasized the importance of strengthening the Qatar Monetary Agency's supervisory role. The considerable efforts to diversify the economic base and to encourage the private sector were noted, and satisfaction was expressed that the authorities were pursuing liberal external policies including maintenance of a generous foreign aid program.

In the period since the last consultation, policy implementation has, in the view of the staff, been broadly in line with these conclusions and recommendations. The discussions covered a review of economic and financial developments since the last consultation and an appraisal of near- and medium-term policies and prospects. As in the past, the discussions were hampered by gaps in the statistical base and reconciliation problems (see Appendix IV).

1. Production, prices, and the labor market

Over the past few years, Qatar's oil output and exports in common with those of other GCC members have remained well below capacity reflecting support for OPEC production restraint and the depressed state of the world oil market. Following the reintroduction of quotas by OPEC in late 1984, Qatar's oil output fell to about 306,000 b/d in 1985 (roughly two-thirds of capacity), representing a decline of nearly 25 percent compared with 1984. With the lapsing of OPEC quotas in the final quarter of 1985, Qatar followed the lead of the larger OPEC members in adopting a more flexible market-related pricing policy with a view to increasing market share. As a result, Qatar's oil output is estimated to have averaged 334,000 b/d in 1986.

Upon the reinstitution of production restraints by OPEC at the end of 1986, Qatar's quota was set at 285,000 b/d for the first half of 1987 and 299,000 b/d for the second half of the year. Official prices for Qatari crude oil which were set in line with the OPEC reference price of US$18 per barrel, result in an average crude oil export price of US$17.75 per barrel. The Qatari representatives stated that despite weak demand in the first few months of 1987, reflecting the initial resistance of major buyers to term sales at fixed prices, export demand had subsequently picked up. It is expected that exports for 1987 as a whole will average 267,000 b/d, in line with Qatar's quotas. Though this would represent a decline of about 13 percent in volume terms compared with 1986, export earnings from oil and gas would be 16 percent higher than last year reflecting the strengthening of prices.

Domestic demand for gas has been rising by about 10 percent annually in recent years in the face of declining output from both oil-associated and nonassociated sources. Shortages and power interruptions have been a frequent and costly source of disruption to some of Qatar's major manufacturing plants (especially steel and fertilizers) that rely on gas for fuel and feedstock. In these circumstances, the authorities have decided to go ahead with the development of an offshore gas field (reportedly the world's largest reservoir of nonassociated gas) known as the North Field. The field covers an area of 6,000 square kilometers and contains some 350 trillion cubic feet of recoverable gas reserves with a high concentration of condensates.

In its first phase, which has now been initiated, the project is expected to yield 800 million cubic feet of gas per day by the end of 1990. While the gas would mainly serve local industry and utilities (electricity and water desalination) any surplus would be reinjected into the aging onshore reservoirs as a strategic reserve. In addition, the first phase of the project is expected to yield 40,000-50,000 b/d of petroleum liquids which, as condensates, do not fall within Qatar's OPEC production quotas. Those revenues alone, based on current oil prices, would be sufficient to amortize the presently estimated cost of the project (US$950 million) within five years. The financing requirements for the project are to be met almost entirely from international commercial sources. Further phases of the project, which would involve the production of gas for export, are still at an early stage of consideration and they include the possibility of constructing pipeline links with other GCC countries.

The weakness in economic activity in the non-oil sector over the past two years is seen as being mainly attributable to the further reduction in government spending occasioned by the decline in oil revenues. However, the authorities also believe that the economy is undergoing an inevitable adjustment to more normal circumstances following the rapid growth and diversification of the non-oil sector in the decade up to the early 1980s. For that reason, they consider that the non-oil sector would be largely unresponsive to greater stimulus from the Government; also, they remain firmly committed to avoiding increased reliance on subsidies or recourse to protectionist policies.

While important progress has been realized in expanding agricultural output and in developing a manufacturing sector, based largely on indigenous oil and gas resources, these sectors remain small in relation to GDP and scope for their further development appears limited given the narrow resource base. Performance of agriculture has reflected the scarcity of arable land and water, while the country's main manufacturing industries (petrochemicals, fertilizer, steel, and cement) have been beset by low world market prices and shortages of gas as fuel and feedstock. With much of the country's infrastructure having been completed (the notable exceptions being power and water) and the services sector having reached saturation point, the authorities see little further scope for efficient diversification. They plan to rationalize the existing incentives and services provided to agriculture with a view to achieving greater economy and efficiency. In manufacturing, current policy is aimed at consolidating existing industries and at stimulating small- and medium-sized projects in the private sector, aimed at the GCC market, through provision of soft loans, marketing services, and exemption from customs duties.

The authorities anticipate a further, though moderate, shrinkage in the non-oil sector this year. Small increases in value added from the manufacturing and construction sectors are expected to be offset by declines in the public sector and in trade, where some lagged response to the sharp slowdown of 1986 is foreseen. For 1988, the authorities expect a slight recovery in overall activity following a consolidation of oil production and a limited revival of construction mainly associated with government contracts. Implementation of the North Field gas project is expected to provide minor additional stimulus to the domestic economy after 1988.

The relative stability of domestic prices over the past four years resulted from a combination of factors. Weak domestic demand, associated with stagnation has depressed prices for many domestic goods and services, while there appears to have been an incomplete pass-through of import price increases as traders cut their profit margins. Meanwhile, utilities and basic services continue to be provided largely free of charge, while certain basic commodities are subsidized and subject to official price controls. Given the openness of the economy and the intended maintenance of fiscal and exchange policies, the authorities do not envisage any acceleration of the rate of price increase. They note, however, that the number of subsidized products has been reduced and that further cuts could be expected if the budget were to deteriorate.

Developments in the labor market have been marked by falling employment of expatriates and a lowering of wages and benefits. Employment of expatriates is estimated to have declined by 5 percent in the public sector and by 10-15 percent in the private sector over the past three years. Manpower policy continues to favor the employment of Qatari nationals through increased training and other benefits.

2. Financial policies

Based on actual data for the first half of the current fiscal year, the authorities are now estimating total budgetary outlays for 1987/88 at about QR 10.5 billion, approximately the same as last year's outturn. Total revenues are projected at QR 6.5 billion, somewhat higher than last year, with the result that the overall budget deficit would amount to about QR 4 billion. The present level of outlays is perceived as being close to the minimum necessary to meet domestic objectives for social services and other spending requirements including those on maintenance of capital projects. Implementation of the North Field gas project has very limited implications for the budget with total allocations for this purpose in 1987/88 amounting to no more than

QR 70 million (less than 1 percent of net domestic government expenditure). The authorities also see the present level of spending as being consistent with macroeconomic objectives regarding maintenance of activity levels and resource utilization domestically and avoidance of an excessive drain on external reserves. They are likely to maintain government spending at around the present level in the 1988/89 budget.

Regarding prospects and policies for broadening the revenue base, the authorities do not anticipate any major initiatives in this direction in the foreseeable future. However, they recognize that since the scope for further spending cuts is limited by social and economic objectives, any future decline in oil revenues would prompt a serious consideration of alternative revenue sources. As a contingency, thought is to be given to the introduction of charges and user fees for government services. There is also scope for increasing import tariffs which, in Qatar, are at the lower end of the agreed GCC range. The authorities are less inclined to consider extending the existing corporate tax on foreign firms to domestic corporations in view of the administrative difficulties that have been encountered to date. Equally, they are not enthusiastic about the introduction of other tax initiatives.

On the expenditure side, delays in payments by the Government, which have ranged up to six months, have now been reduced to about three months. The authorities explained that delays in government payments and the associated need for bridge financing was the primary factor behind the surge in bank advances to the private sector in 1985-86: to a lesser extent the growth in credit reflected the accumulation of accrued interest on outstanding loans. A marked slowdown in credit to the private sector in the first half of 1987 is believed to reflect the recent reduction in the average delay in payments by the Government.

Turning to interest rate policy, the staff expressed the view that the rigidity of domestic interest rates seemed impractical in view of the openness of Qatar's economy and the variability of world market interest rates. Moreover, for a given reserve target, an increase in interest rates abroad, by encouraging additional capital outflow could necessitate a greater degree of fiscal restraint. The Qatar representatives recognized that this issue had become more pressing in view of recent and prospective trends in world market interest rates while Qatar's economic situation remained weak. They recalled that in earlier years when Qatar's domestic interest rates were below those in world markets, the outflow of funds did not pose a problem as it coincided with substantial oil receipts. More recently, the interest rate differential had worked in Qatar's favor. A reversal of the differential in the current circumstance of sharply lower earnings from oil could pose problems for financial management. While the level of interest rates was currently under review, the authorities did not expect that any basic change in policy was in prospect as they face similar constraints to neighboring countries.

As to the commercial banks, following the measures introduced in 1986 to strengthen the Qatar Monetary Agency's regulatory role, the authorities are currently reviewing proposals for the introduction of provisions for bad and doubtful debts. Though it is recognized that problems exist as regards the quality of bank assets, recent examinations by the QMA of bank loan portfolios have concluded that none of the banks faces any major risks. Profitability of banks (though a criterion that needs to be interpreted with caution) remains on the whole good, and several banks have taken independent steps to strengthen their reserves. At the same time, the financial jurisdiction of the Islamic (Sharia) courts is limited, and banks are legally empowered to seize collateral in the event of default by debtors. Finally the QMA now has greater flexibility to act as lender of last resort following the recent introduction of a discount facility. Commenting on the absence of routine activity through the discount window since its inception over a year ago, the Qatari representatives noted that the banks were highly liquid and that there was a dearth of eligible paper in a market dominated by overdraft facilities.

3. External policies and prospects

The staff representatives were in broad agreement with the authorities regarding estimates of the balance of payments outturn for 1987 and the outlook for the medium term.

Balance of payments estimates for 1987 envisage an average oil production of 292,000 b/d and an average price of US$17.60 per barrel. Other exports are expected to recover slightly due to the improvement in world prices for steel, fertilizer, and refined petroleum products. Import payments are estimated to decline by a further 2.5 percent in nominal terms as a result of the lagged response to the sharp slowdown in economic activity last year and continued restraint in government expenditure. The expected improvement of the trade surplus, however, is expected to be partly offset by a widening of the deficit on services and transfers, due mainly to a substantial fall in investment income related to reserve drawdowns. In consequence, the current account is expected to remain in deficit though at a lower level than in 1986. This, together with currently estimated capital outflows is expected to result in an overall deficit of US$0.4 billion, to be financed mostly by government reserves.

Medium-term balance of payments projections drawn up in collaboration with the authorities and based on the assumption of continued firmness in oil prices, reflect the express intention of the authorities to seek to maintain government spending at or near its current real level. (Other assumptions underlying the projections are detailed in Appendix I, Table 3.) In sum, the medium-term projections envisage the overall external position remaining in deficit at around US$0.3 billion annually. However, there appears to be little likelihood of Qatar facing any financing difficulties given its very comfortable reserve position. Even under pessimistic assumptions (e.g., that oil prices are US$5 per barrel lower than projected throughout the period and capital flows are virtually double those anticipated in the basic scenario while there are no compensating policy adjustments) international reserves would still be at a level of about six months of imports at end-1990. This underlines the considerable room for maneuver the authorities have.

The Qatar representatives expressed confidence that world oil prices would continue to firm up possibly beyond the level assumed in the projections, thus reducing the need for reserve use. They indicated, moreover, that additional export earnings could be realized by the country's heavy industries if deficiencies in the supply of energy and gas could be remedied or if world market prices should strengthen. Regarding the capital account, they believed that projections were extremely difficult to make given the sensitivity of capital movements to political developments in the region. Furthermore, the authorities could envision foreign borrowing, if necessary, in place of reserve drawdowns.

The Qatar representatives confirmed that there had been no fundamental changes in reserve management or investment policy since the last consultation. Decisions continue to be guided by such considerations as security of placement, liquidity, and rate of return. Foreign assets are primarily invested in major capital markets and there is a preference for financial assets: the authorities have no plans to diversify into nonfinancial assets. The Qatar representatives stated that given the low rate of return on domestic investment, foreign investment was seen as an efficient form of diversification and this policy had been reinforced as investment income had come to form an important element of budgetary and external receipts.

There have been no changes in Qatar's exchange rate arrangements or trade system since the last consultation. With the value of the Qatar riyal having depreciated in line with the U.S. dollar since early 1985, the authorities do not see the exchange rate as creating any obstacle to the further expansion of non-oil exports, prospects for which appear relatively favorable. The authorities stated that the proposal for a common pegging arrangement within the GCC had been postponed indefinitely, pending further technical study. More generally, within the GCC, Qatar continues to play its part in implementing tariff and trade policies in conformity with the program of joint economic action.

IV. Staff Appraisal

In the two years since the last consultation, Qatar has had to adjust further in the face of a significant contraction of oil revenues. In the view of the staff, this adjustment was implemented smoothly and successfully through cuts in government expenditures. While allocations for the range of social services were increased, cuts were applied in most other categories of government spending. Measures to increase support to the domestic economy, including raising subsidies, were rightly resisted. Though the recession in the non-oil sector has been prolonged, this is correctly viewed as an inevitable adjustment to more normal circumstances. International reserves remain at a very high level, leaving the authorities with considerable flexibility in economic management.

Monetary policy has continued to play a subordinate role, not only because of the preponderance of fiscal policy, but also because of the limited range of instruments available. However, important steps were taken in the course of 1986 through the introduction of capital and reserve requirements for commercial banks mainly as precautionary steps to preserve the soundness of the banking system in a climate of continuing recession. The staff strongly endorse these measures as well as the further steps that have been proposed to introduce guidelines for provisioning by commercial banks. We would urge that these proposals be adopted at an early date.

In the current year, 1987, the external position appears to have improved with the strengthening of the world oil market, and indications are that actual spending under the 1987/88 budget will be at least as high as actual expenditures last year; thus, the recent decline in net domestic expenditures of the Government may have been arrested if not reversed. At the same time, there are expectations of optimism building up in the private sector following the recent go-ahead for the first phase of the large North Field gas project. Though its domestic repercussions should not be exaggerated, the project seems to be well timed, given that the aging of existing gas fields and the fall in associated gas supplies are likely to worsen the economy's chronic shortage of gas. The associated supply of petroleum liquids which can be exported give the project a very rapid payoff period.

A review of medium-term prospects for the balance of payments suggests that even under highly pessimistic assumptions, Qatar's international reserves are large enough to give the authorities plenty of room for maneuver. In contemplating possible policy options in the event that reserve losses should turn out to exceed what the authorities regard as acceptable, the staff feel that the authorities are right to give thought to expanding the revenue base. This may have become a more practicable and attractive policy option now that government expenditures have been cut to a level from which the authorities believe further savings would be difficult to achieve without undesirable social or economic consequences. There is undoubtedly considerable potential for domestic resource mobilization initially through the extension of user charges and fees for government services. The staff believe that it would be advisable for the authorities to be prepared with their options in this area on a contingency basis.

Another aspect of policy which deserves continued review and consideration is interest rate policy. The staff appreciate the constraints in this area and limits to interest rate policy. However, rigidities in domestic interest rates, given the openness of Qatar's financial system, predispose the economy and the financial system to large and sudden capital movements as interest rate differentials shift. Looking ahead, if world market rates continue their recent upward trend, while interest rates in Qatar remain unchanged, there will be a tendency for additional capital to flow out of the country. With a given reserve target, this would impose the need for greater restrictiveness in fiscal policy. Efforts to contain pressures on the external position through cautious fiscal policy will, in the view of the staff, also need to be supported by adequate flexibility in monetary policy, particularly in view of the high import content of private demand in Qatar.

In the external sector and in the likely event that continued overall deficits do materialize over the coming years, the authorities are giving thought to the possibility of financing these, at least in part, by borrowing commercially rather than solely by drawing down official reserves. With no official external debt, Qatar can and does have ample scope for undertaking some borrowing, and there may be advantages in making initial approaches to the markets from a position of strength. On the trade front, the staff strongly encourage the authorities to adhere to their open trade and exchange policies, and applaud the fact that the adjustment that has been achieved so far has come without any resort to restrictions. The staff commend the authorities for continuing their external assistance program, albeit at a substantially reduced level, in spite of the weakness of the external payments position. On exchange rate policy, the staff share the view of the authorities that the effective depreciation of the riyal over the past two years, in line with the U.S. dollar, has been consistent with their desire to diversify the economy within feasible bounds.

Finally, on a technical level, the staff strongly urge the authorities to redouble their efforts to upgrade the statistical base. In particular, there is a compelling need to improve the compilation, timeliness, and consistency of data in the budget and balance of payments fields. Clearly, analysis and policy are seriously impaired by the existing shortcomings. Improvements in statistics, as well as the broader issues of effective policy formulation, call for a closer coordination between all the official entities responsible for management of the economy.

In line with the desire of the authorities, it is recommended that the next Article IV consultation be held within 24 months.

Table 3. Qatar: Balance of Payments Estimates and Projections, 1984-90

(In millions of U.S. dollars)

		Preliminary Estimates			Projections		
	1984	1985	1986	1987	1988	1989	1990
Merchandise trade	2,202	1,959	750	1,041	1,169	1,212	1,256
Oil exports, f.o.b. 1/ 2/	2,996	2,779	1,535	1,783	1,923	1,970	2,022
Other exports	368	318	314	330	345	369	387
Imports, c.i.f.	-1,162	-1,139	-1,099	-1,071	-1,099	-1,126	-1,154
Services and transfers (net)	-1,304	-1,145	-939	-1,099	-1,176	-1,209	-1,242
Receipts	490	689	736	541	505	493	483
Investment income	(369)	(571)	(624)	(426)	(385)	(368)	(354)
Payments	-1,795	-1,833	-1,675	-1,640	-1,680	-1,702	-1,726
Remittances	(-862)	(-1,052)	(-976)	(-948)	(-956)	(-964)	(-975)
Official transfers	(-95)	(-38)	(-31)	(-33)	(-41)	(-44)	(-45)
Balance of goods, services, and transfers	897	814	-189	-58	-7	3	14
Capital movements (net) 3/	-559	-707	-298	-338	-335	-339	-341
Official	-224	-115	-121	-159	-156	-158	-157
Private (including errors and omissions)	-335	-591	-177	-179	-179	-181	-184
Overall balance	339	108	-487	-396	-342	-337	-327
Change in reserves (increase,-)	-339	-108	487				
Government 2/	398	132	489				
Qatar Monetary Agency	7	-60	-122				
Commercial banks	-744	-180	120				
Memorandum item:							
International reserves, end-year	4,848	4,910	4,370	3,974	3,632	3,295	2,968
(months of imports, c.i.f.)	50	52	48	45	40	35	31
						(Alternative scenario) 4/	
Merchandise trade					649	692	736
Oil exports					(1,403)	(1,450)	(1,502)
Balance of goods, services, and transfers					-527	-517	-516
Capital movements 3/					-610	-614	-616
Overall balance					-1,137	-1,131	-1,132
Memorandum item:							
International reserves, end-year					2,837	1,706	574
(months of imports, c.i.f.)					31	18	6

Sources: Official estimates and staff projections prepared in collaboration with the authorities.

1/ Including LPG products.
2/ Qatar Monetary Agency estimates for 1984-86.
3/ Including errors and omissions.
4/ Assuming oil prices are US$5.0 per barrel lower and capital outflows US$275 million higher than anticipated in the basic scenario.

Assumptions Underlying the Balance of Payments Estimates for 1987 and Projections for 1988-90

1. The 1987 estimates are based on the following assumptions:

a. An average export price for crude oil of US$17.60 per barrel and an average export volume of 267,000 b/d which reflects Qatar's OPEC production quota of 285,000 b/d and 299,000 b/d for the first and second halves of 1987, respectively.

b. Other exports are projected to increase slightly following world market price recoveries for some of the major products.

c. Imports are estimated on the basis of the projected 1987/88 budget expenditure outcome which is expected to be at about the same level as in 1986. Nominal non-oil GDP is expected to stagnate.

d. Outward workers' remittances reflect a further departure of expatriate labor and lower wage rates following the continued economic slowdown.

e. The deficit on services and transfers is expected to increase in 1987 because recorded investment income, which had been swollen by valuation gains in 1986, declines.

f. The widening of the capital account deficit reflects larger official capital outflows in light of budget estimates.

2. The projections for 1988-90 are based on the following assumptions:

a. Export volumes for crude oil are based on a production level of 299,000 b/d over the period, which is in line with Qatar's latest OPEC quota.

b. Average export prices are assumed at US$18.50 per barrel in 1988, rising by US$0.50 each year during the following two years.

c. Slight improvements are expected in the performance of the other major export industries following projected increases in the world market prices for fertilizers and refined products, as well as improved gas supply to the steel and petrochemicals plants.

d. Non-oil economic growth over the period is expected to be quite low (1-2 percent) as there are no plans for major expenditure increases by the Government. Lower rates of growth are expected in the manufacturing sector and the agricultural and small industries sectors.

e. The North Field gas project is not expected to have a large impact on the domestic economy as it is expected to be financed externally and since its first phase is not expected to come on stream before late 1990.

f. The projected increase in import payments takes account of the anticipated limited growth of the non-oil sector and current projections regarding import prices.

g. The deterioration in the services and transfers account over the period reflects modest growth in workers' remittances and a decline in investment income associated with continued reserve drawdowns.

h. Capital outflows are assumed to remain fairly stable over the period at their 1987 level.

Qatar - Fund Relations

(As of October 31, 1987)

I. Membership Status

a.	Date of membership	September 8, 1972
b.	Status	Article VIII

A. Financial Relations

II. General Department		SDR millions	Percent of quota
a.	Quota	114.9	
b.	Total holdings of riyals	85.8	74.7
c.	Reserve tranche position	29.1	25.3
d.	Current operational budget		
	Transfers	0.8	
	Receipts projected	2.1	
e.	Lending to the Fund	None	

III. Use of Fund Resources

Qatar has not used Fund resources to date.

IV. SDR Department

a.	Net cumulative allocation	12.8
b.	Holdings	24.1 (or 188.2 percent of net cumulative allocation)
c.	Current designation plan (maximum designation)	Not included

V. Exchange Rate Arrangement

The Qatar riyal is officially pegged to the SDR at QR 4.7619 = SDR 1 with margins of 7.25 percent, which have been exceeded since May 1981 as the exchange rate has remained unchanged with respect to the U.S. dollar at QR 3.64 = US$1 since June 1980.

VI. Last Article IV Consultation

Consultation discussions were held in Doha in October 1985; the Staff Report (SM/85/342) was discussed by the Executive Board (EBM/86/21) on February 5, 1986. In the Chairman's summing up, it was expected that the next Article IV consultation would be held on the 24-month cycle.

Qatar: Basic Data

I. Economic Indicators, 1983-87

	1983	1984	1985	1986
Oil production				
In million barrels	107.3	147.1	111.8	122.0
In thousand barrels per day	294.0	401.9	306.3	334.2
	(In percent per annum)			
Rates of change				
GDP at current market prices	-14.9	3.7	-6.5	-21.1
Non-oil GDP at current market prices	0.8	6.7	-6.5	-2.1
Of which: agriculture	2.6	5.6	3.4	3.3
manufacturing	5.3	24.9	-3.2	0.6
construction	-23.7	1.2	-7.0	-5.0
other services	-14.9	3.7	-6.5	-21.1
Cost of living index	2.7	1.1	1.9	1.6
	(In percent of GDP)			
Composition of GDP				
Oil Sector	45.8	44.2	44.3	30.9
Non-oil Sector	54.2	55.8	55.7	69.1
Of which: Agriculture	0.8	0.8	0.9	1.2
Manufacturing	6.2	7.5	7.8	9.9
Construction	5.9	5.8	5.8	6.9
Other Services	23.4	25.0	25.0	31.1

	1983/84	1984/85	1985/86	1986/87	Proj. 1987/88
	(In millions of Qatar riyals)				
Government finances 1/					
Revenues	12,848	13,610	10,393	5,884	6,500
Of which: oil and gas	10,902	11,877	7,573	3,048	...
Expenditures	12,517	12,173	10,374	10,427	10,500
Current	9,457	10,204	8,690	8,942	9,000
Capital	3,060	1,970	1,684	1,484	1,500
Net lending and equity participation	580	278	323	-107	--
Balance (deficit-)	-249	1,159	-343	-4,436	-4,000
	(In percent per annum)				
Changes in government finances 1/					
Revenues	-14.1	5.9	-23.6	-43.4	10.4
Of which: oil and gas	-14.1	8.9	-36.2	-59.7	...
Expenditures	-9.2	-2.7	-14.8	0.5	0.7
Current expenditures	-5.2	7.9	-14.8	2.9	0.6
Capital expenditures	-19.5	-35.6	-14.5	-11.8	1.1

	1983	1984	1985	1986	Proj. 1987
	(In percent per annum)				
Changes in money and credit					
Money and quasi-money	-1	22	9	11	7
Foreign assets (net)	-19	63	12	--	...
Net domestic assets	28	-20	2	36	...
Credit to private sector	9	-10	18	25	13
Net government domestic spending	-33	25	-9	-15	7

Qatar: Basic Data (Concluded)

	1983	1984	1985	1986	Proj. 1987
	(In millions of U.S. dollars)				
Balance of payments					
Exports	3,297	3,364	3,098	1,849	2,112
Of which: oil 2/	(2,993)	(2,996)	(2,779)	(1,535)	(1,783)
Imports, c.i.f.	-1,456	-1,162	-1,139	-1,099	-1,071
Trade balance	1,841	2,202	1,959	750	1,041
Services and private transfers (net)	-1,432	-1,304	-1,145	-939	-1,099
Current account	410	897	814	-189	-58
(Current account as percent of GDP)	(6.3)	(13.4)	(13.0)	(-3.8)	(--)
Capital account 3/	-1,017	-559	-707	-298	-338
Overall balance (deficit -)	-607	339	108	-487	-396
Reserves (end of year, billions of US$)					
Gross official reserves	4.5	4.8	4.9	4.4	4.0
In months of imports	37	50	52	48	45
Exchange rate					
Nominal rate (QRls/US$)	3.64	3.64	3.64	3.64	3.64 4/
Change in NEER (in percent) 5/	5.6	7.5	2.4	-18.0	-6.4 6/

II. Social and Demographic Indicators 7/

Area	
Total land area (square kilometers)	11,000
Agricultural area (share of total)	4.8 percent
GNP per capita (1985; current prices)	US$16,270
Population characteristics	
Total	370,000 8/
Urban (share of total)	88 percent
Population density (arable land)	574 per square kilometer
Population growth rate	6.5 percent
Life expectancy at birth	72 years
Infant mortality (aged under 1)	3.6 percent
Child death rate (aged 1-4)	0.3 percent
Health, education and energy use	
Population per physician	1,300
Population per nurse	500
Access to safe water (share of population)	95 percent
Per capita energy use (in oil equivalent)	14,902 kilograms

1/ Fiscal year is based on the Islamic (Hijri) year.
2/ Includes Liquefied Petroleum Gas (LPG).
3/ Including errors and omissions.
4/ End of October.
5/ No Real Effective Exchange Rate (REER) is computed under the Information Notice System due to lack of an appropriate deflator.
6/ Between December 1986 and August 1987.
7/ World Bank and International Finance Corporation, Social Indicators of Development (August 1987).
8/ Census data cited in Middle East Economic Digest, August 1, 1987 (p. 22).

Qatar--Statistical Issues

Despite improvements in the data base in recent years, major gaps remain. In particular, national income estimates at constant prices are available only until 1985, balance of payments data are in highly aggregated form, and official data on oil production and exports are published with a considerable and irregular lag. In addition, serious problems exist in reconciling fiscal data with the monetary accounts and in reconciling oil receipts and reserves movements as shown in the balance of payments with those incorporated in the budgetary accounts.

1. Outstanding statistical issues

a. Real sector

Data on non-oil GDP have not been published by the Central Statistical Organization since 1984. Only the QMA provides an estimate for this statistic. Data on the consumer price index are available only on an annual basis.

b. Government finance

Available information on the budget is limited, making it difficult to analyze accurately the overall fiscal position. Oil receipts in the budget cannot be satisfactorily reconciled with those in the balance of payments, while there have been large discrepancies in recent years between budgetary operations and their financing.

No government finance data are available in IFS beyond 1982 and the Government Finance Statistics Yearbook does not include a presentation for Qatar.

c. Monetary accounts

Monetary data have been reported on an irregular basis. The mission stressed the importance of regular and timely reporting of monetary data. The authorities assured the mission that data would be supplied in the future and data through June 1987 have been received.

d. Balance of payments

Substantial gaps in balance of payments transactions and inadequate information from the commercial banks on the nature of foreign exchange transactions result in classification problems and sizable errors and omissions. Data on workers' remittances appear overestimated on the basis of data provided on the expatriate population and average wage rates. Data on official capital and reserves movements cannot be reconciled with budget data.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Qatar in the November 1987 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Qatar Monetary Agency, which have been provided on an infrequent basis.

Status of IFS Data

		Latest Data in November 1987 IFS
Real sector	- National accounts	n.a.
	- Prices: CPI	1986
	- Production (crude petroleum)	December 1986 1/
	- Employment	n.a.
	- Earnings	n.a.
Government finance	- Deficit/surplus	1982
	- Financing	1982
	- Debt	n.a.
Monetary accounts	- Monetary authorities	March 1986
	- Deposit money banks	March 1986
	- Other financial institutions	n.a.
Interest rates	- Discount rate	n.a.
	- Bank lending/deposit rates	September 1984
	- Bond yields	n.a.
External sector	- Export values	Q1 1984
	- Crude petroleum value	Q4 1985
	- Imports	Q2 1986
	- Balance of payments	n.a.
	- International reserves	March 1986
	- Exchange rates	September 1987