SM/89/266

CONTAINS CONFIDENTIAL
INFORMATION

December 13, 1989

To: Members of the Executive Board

From: The Secretary

Subject: Qatar - Staff Report for the 1989 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1989 Article IV consultation with Qatar, which will be brought to the agenda for discussion on a date to be announced.

Mr. Handy (ext. 7073) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

CONTAINS CONFIDENTIAL
INFORMATION

INTERNATIONAL MONETARY FUND

QATAR

Staff Report for the 1989 Article IV Consultation

Prepared by the Staff Representatives for the
1989 Article IV Consultation with Qatar

Approved by P. Chabrier and J. T. Boorman

December 12, 1989

I. Introduction

The 1989 Article IV consultation discussions with Qatar were held in Doha during the period October 26-November 1, 1989. 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), J.G. Borpujari, M.Z. Khan, and D.B. Noursi, and Mrs. W. Buenaobra (secretary), all of MED.

Qatar is on the 24-month consultation cycle. The last consultation discussions were held in October 1987 and the Staff Report (SM/87/286) was discussed by the Executive Board on January 15, 1988. On that occasion, Directors commended the authorities for their sound management of the economy. Noting that the country's large external reserve holdings put it in good position to cope with continued uncertainties in the world oil market, Directors endorsed the efforts of the authorities to broaden the economy's productive base in collaboration with their partners in the Gulf Cooperation Council (GCC), and encouraged them to keep the appropriateness of their exchange rate regime under review.

Qatar accepted the obligations of Article VIII, Sections 2, 3, and 4 on June 4, 1973. Further information on Qatar's relations with the Fund is given in an appendix. The World Bank is providing technical assistance to the authorities toward setting up a planning body.

II. Recent Developments

Qatar is among the smallest OPEC producers; its oil output accounts for under 2 percent of total OPEC production. Nevertheless, oil and gas dominate Qatar's domestic economy and its balance of payments (Table 1, Chart 1). Over the past five years, the oil sector has constituted 55 percent of GDP, and oil revenues have accounted for nearly 80 percent of export receipts and 70 percent of government revenues. Proven oil reserves are sufficient to sustain output at the current rate for about

30 years. In addition, there are enormous deposits of nonassociated gas in the offshore North Dome field--one of the world's largest concentrations of gas reserves--the exploitation of which is shortly to begin. The economy is heavily dependent on expatriates, with Qatar nationals accounting for only about 20 percent of the total population (of about 400,000) and for about the same proportion of the total labor force. In a stable domestic political climate, Qataris enjoy a comprehensive range of social services and one of the world's highest living standards. Per capita GDP is estimated at about US$14,500 in 1988.

In the five years through 1986, Qatar, in common with its neighboring GCC partner countries, responded to the slump in oil receipts through a policy of fiscal retrenchment aimed at conserving its external reserves (Chart 2). In the process, budgetary expenditures were cut by as much as 30 percent over the period. Meanwhile, however, total revenues fell even more sharply (70 percent) with the result that the large budget surpluses of the early 1980s gradually declined, giving way to a deficit in 1986/87 1/ (equivalent to about 24 percent of GDP). As detailed in the last Staff Report (SM/87/286), this policy succeeded in moderating the deterioration in the external position though it contributed to the domestic stagnation during 1983-86. Domestic developments also reflected a chronic shortage of gas and uncertainty associated with regional insecurity.

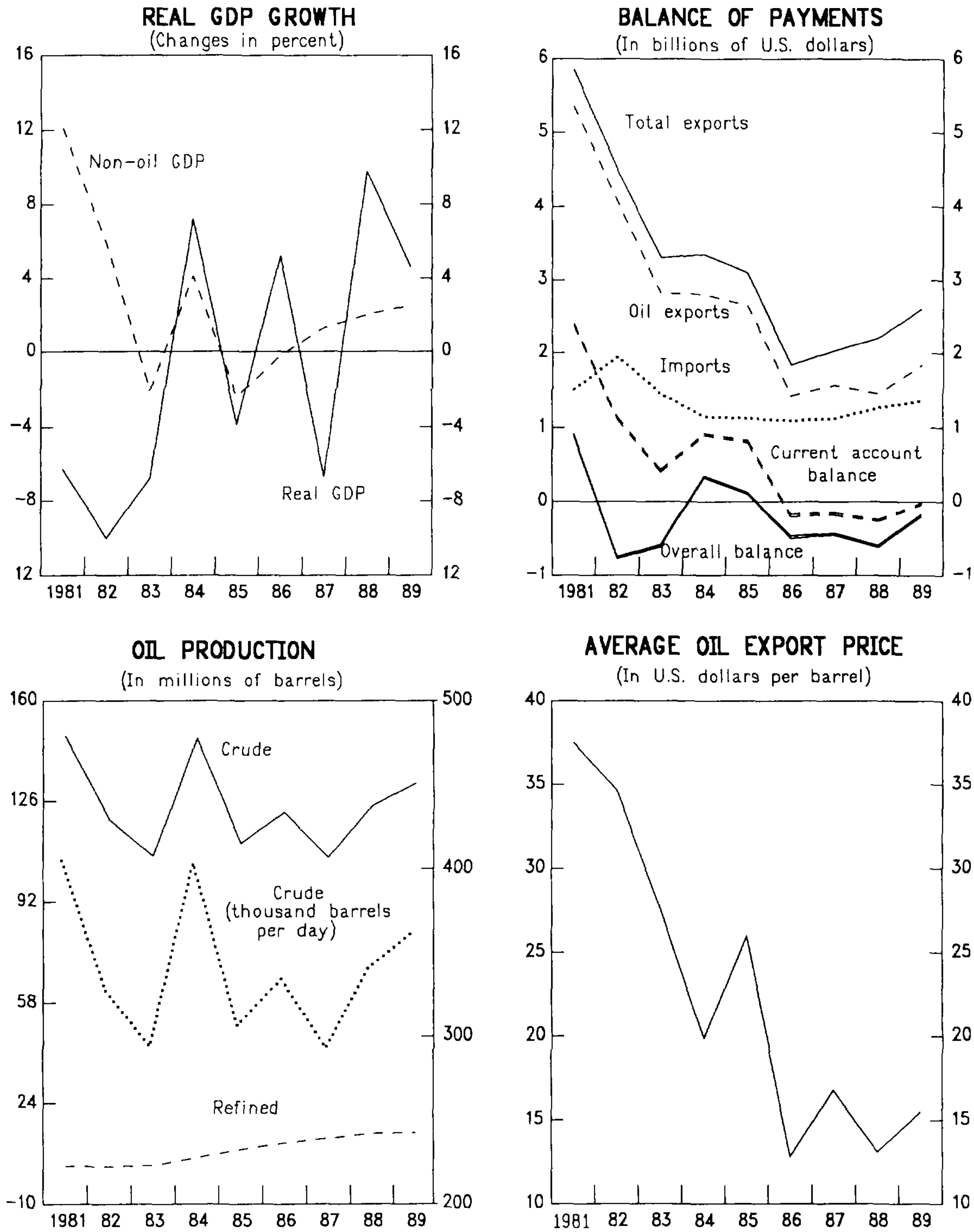
In the past two years, Qatar has staged a modest recovery, with real non-oil GDP rising by an estimated 1.3 percent in 1987 and by some 2 percent in 1988. Behind this trend are several elements. First, the gradual improvement in the regional security situation has spurred confidence and improved the climate for investment. Second, after several successive years of decline, oil export earnings have been relatively stable since 1986 (at around US$1.5 billion per annum), permitting some letup in the fiscal retrenchment that had been necessitated in prior years when oil revenues were falling. And, third, the implementation since mid-1987 of a major project to develop the country's offshore gas deposits has imparted some stimulus to the local economy as well as providing a basis for further expansion and diversification of the domestic industrial sector. The recovery has been accompanied by an increase in the rate of domestic price increase (as measured by the official cost of living index) to 4.8 percent in 1988. Subsidies continue to be provided on utilities, a few basic commodities, and most agricultural inputs.

Recorded budgetary expenditures in 1987/88 were virtually unchanged in nominal terms for the third year in a row. This, together with larger transfers from the state oil corporation, helped bring down the overall budget deficit significantly (to about 12 percent of GDP).

1/ Based on the Hijri calendar, fiscal year 1986/87 ended on February 28, 1987. As noted below, the fiscal calendar was changed in fiscal year 1988/89.

Chart 1

QATAR
SELECTED ECONOMIC INDICATORS, 1981-89 [1]



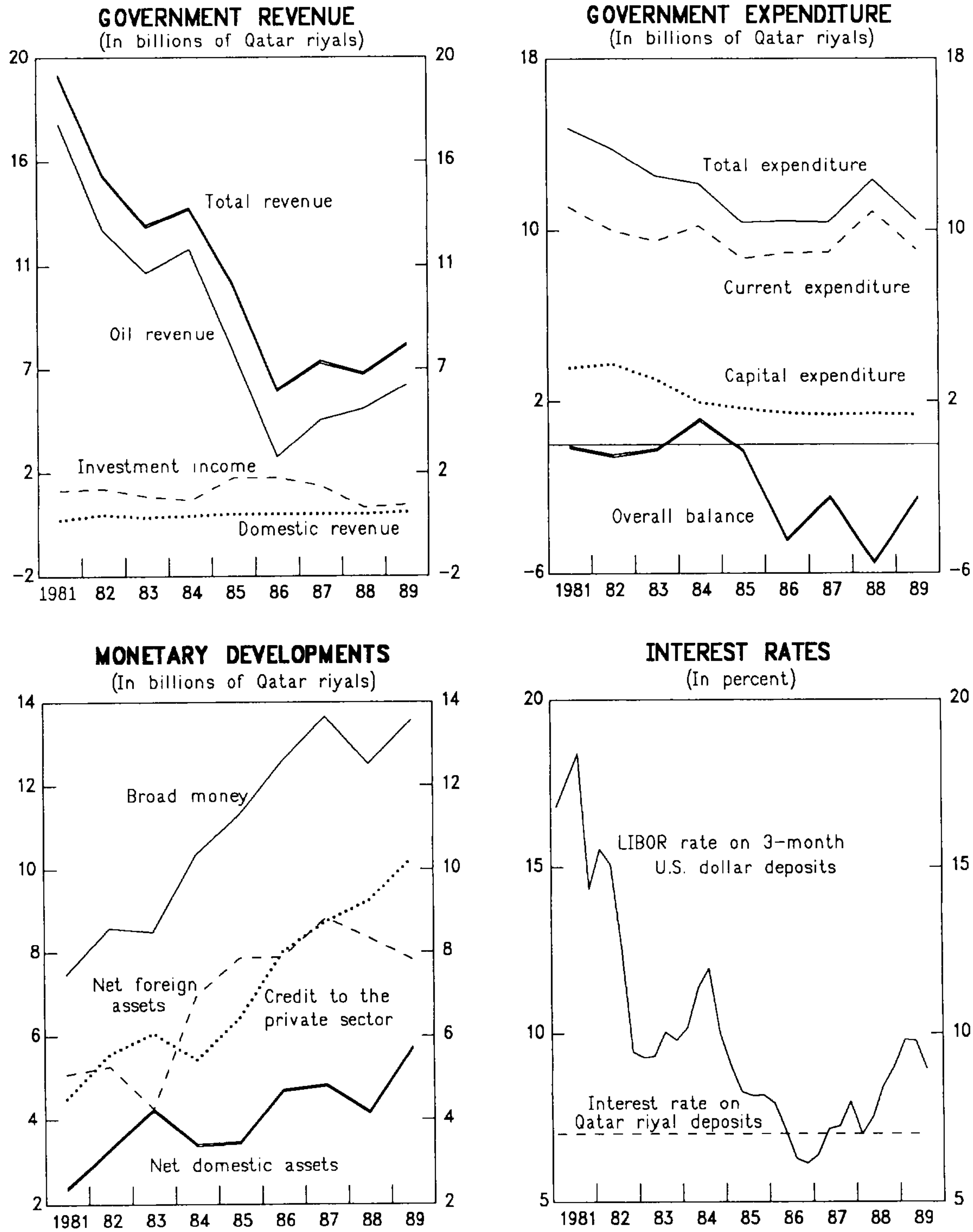
Sources : Qatar authorities; and staff estimates.

1 Includes staff projections.

Chart 2

QATAR

SELECTED ECONOMIC INDICATORS, 1981-89 [1]



Sources : Qatar authorities; and staff estimates.

1 Includes staff projections; the 1989 monetary data are for end-June.

Table 1. Qatar: Selected Economic Indicators, 1983-89

(Changes in percent unless otherwise indicated)

	1983	1984	1985	1986	1987	1988	Proj. 1989
Production and prices							
Real non-oil GDP	-2.1	4.1	-2.4	-0.2	1.3	2.0	2.5
Crude oil production 1/	-10.4	37.1	-24.0	9.3	-12.4	16.3	6.1
(In barrels per day)	(294.0)	(401.9)	(306.3)	(334.8)	(293.1)	(340.0)	(361.6)
Cost of living index	2.7	1.1	1.9	1.6	3.6	4.8	4.5
Crude oil prices	-20.4	-28.0	29.7	-50.4	31.1	-21.9	18.4
Public finance							
Revenues	-14.1	5.9	-23.6	-43.3	20.6	-7.1	18.3
Expenditures	-9.2	-2.7	-14.8	0.5	-0.5	18.9	-14.8
Surplus (deficit-)/GDP 2/	-1.1	4.6	-1.4	-24.1	-12.4	-26.5	-10.7
Money and credit 3/							
Money and quasi-money	-1.0	22.0	9.0	11.0	9.0	-8.0	8.0
Domestic credit	9.0	-10.0	18.5	25.0	9.0	6.0	11.0
Interest rate differential 4/	2.7	3.9	1.4	-0.1	0.2	0.9	2.3
External sector							
Exports, f.o.b.	-26.8	2.0	-7.9	-40.3	10.5	8.2	19.2
Imports, c.i.f.	-25.2	-20.2	-2.0	-3.5	3.2	11.7	8.4
Current balance (deficit-)/GDP	6.3	13.1	13.2	-3.7	-3.1	-4.6	-0.5
Overall balance (deficit-)/GDP	-9.4	4.9	1.8	-9.6	-8.3	-10.7	-2.9
Real effective exchange rate 5/	3.9	4.4	0.6	-18.1	-10.0	-4.4	6.2

Sources: Qatar authorities and staff estimates.

1/ Includes condensate.
2/ Surplus (deficit-) includes net lending and equity participation.
3/ Changes in money and credit for 1989 pertain to the period January-June.
4/ London Interbank Offer Rate (LIBOR) on three-month U.S. dollar deposits less maximum interest rate on Qatar riyal deposits (7 percent).
5/ Deflated by cost of living index (annual).

However, given that budgetary accounting is on a cash disbursement basis, the recorded budgetary return conceals a buildup of arrears to domestic suppliers and contractors; by 1988, delays in government payments were ranging up to eight months. Last year (1988/89),1/ efforts by the authorities to clear part of the backlog of overdue payments contributed to a sharp increase in recorded government expenditures with the result that the budget deficit widened significantly (to 26 percent of GDP).

Monetary and credit developments in 1988 point to sharp deviations from trend. In particular, there was a surge in credit to the public sector which was broadly offset by a sharp contraction in claims on the private sector, while total liquidity declined (reflecting a steep fall in narrow money). Behind these developments are a number of special factors. The growth in bank claims on the public sector in 1988 reflects settlement of some arrears as well as the reclassification of certain loans (totaling QR 2 billion) earlier attributed to the private sector; as a result, the public sector became a net borrower from the banking system. Another special factor was the repayment, in May 1988, of a large obligation (QR 1.3 billion) by a private sector borrower through a drawdown of demand deposits; this transaction, which contributed to the sharp decline in private sector credit in that year (27 percent), also helps explain the decline (of 8 percent) in total liquidity in 1988. In the first half of 1989, liquidity growth picked up sharply, broadly offsetting the contraction of the preceding 12 months; some further loss of foreign assets was outweighed by strong growth in net domestic assets, primarily reflecting further substantial access by the public sector to the banking system.

Monetary policy has continued to play a limited role in the adjustment process, partly because of a lack of instruments at the disposal of the authorities. The past few years have seen the introduction of reserve requirements for bank deposits and the establishment of a discount facility. Reserve requirements were increased in July 1989, bringing them to an average of 2.8 percent of deposits; however, they remain at the lower end of the range for GCC countries. These measures have been aimed primarily at preserving the soundness of the banking system rather than at regulating domestic liquidity. For the same reason, stricter banking procedures and guidelines have been laid down by the QMA, including limitations on credit relative to deposits and ceilings on credit to any single customer. A system for provisioning has also been introduced and bank supervision stepped up. A complicating factor in banking operations, and a constraint on the implementation of monetary policy is the rigidity of domestic interest

---

1/ Fiscal year 1988/89, which would normally have ended on February 8, 1989, was extended through the end of March 1989 as the authorities decided to shift the fiscal year from the Hijri calendar to the 12 months from April 1 through March 31. To facilitate comparison, data for the extended fiscal year 1988/89 have been annualized.

rates: interest rates on bank loans and deposits in domestic currency have been unchanged since 1981, whereas foreign currency denominated operations are not subject to ceilings.

Developments in the balance of payments were marked by continuing large overall deficits during 1986-88 (averaging close to 10 percent of GDP). Export earnings increased appreciably in both 1987 and 1988; though oil receipts showed only a marginal recovery, strong growth was realized in non-oil export earnings (especially, petrochemicals, steel, and fertilizer). However, higher import requirements (associated with the commencement of the North Dome project in mid-1987) and a widening deficit on services and transfers (reflecting declining receipts from investment income as foreign reserves were drawn down) combined to shift the current account into a recurrent deficit after 1986. Even though the traditional deficit on capital account was greatly reduced, a cumulative overall deficit of US$1.5 billion was incurred over 1986-88. While Qatar's international reserves remained comfortable at end-1988 (estimated at the equivalent of 32 months of merchandise imports), there had been a substantial decline over the preceding three years (52 months of imports at end-1985).

Qatar's exchange and trade system is free of restrictions, and the tariff rate on most imports, at 4 percent, is low. Although officially pegged to the SDR, the authorities have, in practice, kept the exchange rate of the Qatar riyal unchanged vis-a-vis the U.S. dollar since June 1980 (QR 3.64 = US$1). This has resulted in wide swings in the external value of the riyal in nominal effective terms in recent years; since domestic prices have been relatively stable, these swings have been reflected in comparable movements in the real effective exchange rate. With the strengthening of the dollar over much of the past two years, the riyal is estimated to have appreciated by some 14 percent in real effective terms following a depreciation of about 40 percent in the preceding three years (Chart 3).

III. Policy Issues and Discussions

Qatar faces few, if any, pressing economic or financial problems, and the still ample external reserve position affords policymakers wide room for maneuver. Economic developments and medium-term prospects continue to hinge on the energy sector, and the impending exploitation of the country's offshore gas deposits carries wide-ranging implications for the domestic economy and the balance of payments.

As in past years, discussions of policies and prospects were hampered by weaknesses and deficiencies in the statistical base (for details, see Appendix IV). The mission underlined the importance of upgrading the data base, assuring the authorities of the Fund's readiness to support such an endeavor through technical assistance.

1. The real sector

Qatar remains committed to the support of OPEC agreements aimed at orderly pricing policies and production restraint. With no new significant oil discoveries over the past 20 years, production policies also reflect a desire to conserve reserves. For 1989, oil output, including condensate, is estimated by the staff at 362,000 barrels per day (b/d) on average, the highest rate of output in five years, and some 6 percent above last year's levels. Crude oil exports in 1989 are estimated at close to 325,000 b/d; in addition, Qatar has an exportable surplus of about 25,000 b/d of refined products. World oil demand having firmed, Qatar's average export price for oil in 1989 is estimated at US$15.50 per barrel. Based on these estimates, export earnings from crude oil in 1989 are projected at about US$1.8 billion, or about 25 percent above last year's level.

Natural gas from the North Dome field is expected to come on stream in early 1991 upon completion of the first phase of development of the project. Total recoverable gas reserves in the field are estimated at the energy equivalent of about 30 billion barrels of oil. 1/ The first phase of the project is to yield natural gas output equivalent to 150,000 b/d of oil to be used for domestic consumption, as well as some 50,000 b/d of condensate and liquefied petroleum gas (LPG) for export. (Condensate and LPG are not covered by OPEC production quotas.) It is noteworthy that the foreign exchange earnings from the export of the output of condensates alone, at current oil prices, would be sufficient to amortize the total cost of the first phase of the project--estimated at US$1.3 billion--in less than five years.

Financing of the North Dome project, which is being organized outside the budget, is coming from the retention by the state oil corporation of the export proceeds of 40,000 b/d of oil (which would normally accrue to the budget), as well as some use of the reserves of the oil corporation itself. Some foreign borrowing is also envisaged, including a loan from foreign commercial banks of US$400 million which is expected to be finalized soon.

Two further phases of the project, each of which would yield about the same volume of output as the first, are under consideration. With output from the first phase expected to satisfy domestic energy requirements for the foreseeable future, the feasibility of further exploitation of the gas reserves would depend upon the availability of export markets. The potential for a second phase is currently being examined from the standpoint of piping gas to neighboring GCC countries, particularly Dubai and Kuwait. A third phase would involve the export

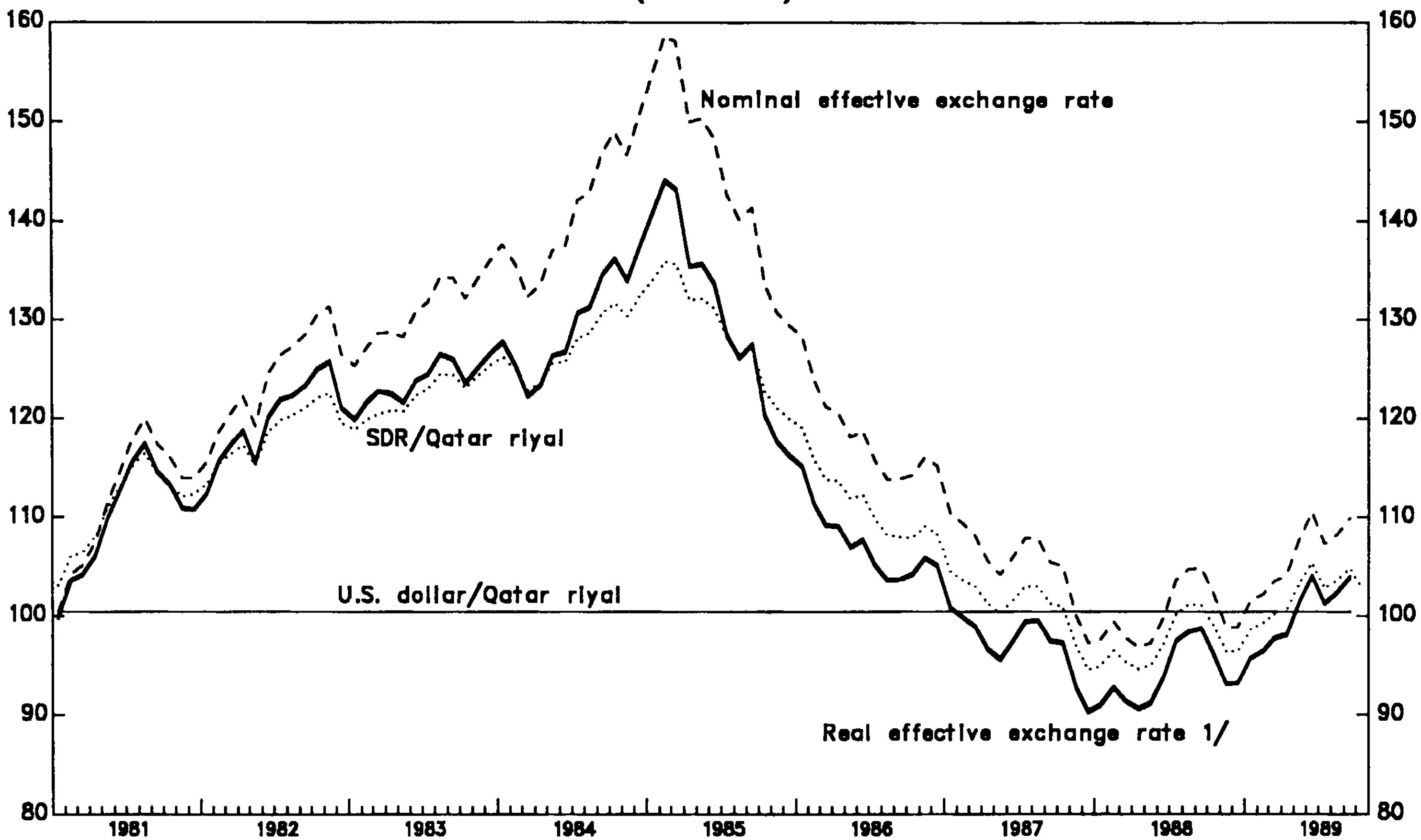
1/ This is a rough approximation made by the staff based on officially estimated recoverable reserves of 150,000 billion cubic feet of gas.

CHART 3

QATAR

EXCHANGE RATE INDICES, 1981–89

(1980 = 100)



Sources: Data provided by the Information Notice System and IFS.

1/ Based on annual cost of living index for Qatar.

of liquefied natural gas to markets overseas; to this end, exploratory discussions have begun with Japan (which has a minority interest in Qatar Gas) 1/ and other potential markets in Asia.

Though largely in the hands of foreign contractors, implementation of the first phase of the project is imparting some stimulus to the domestic non-oil sector. This, together with the substantial increase in government expenditure in the fiscal year ended March 1989, is serving to sustain the economic upturn, and real non-oil GDP is expected to increase by about 2.5 percent in 1989. More generally, the improved outlook for domestic energy supplies has opened the way for an increase in electricity generating capacity and new water desalination plants as well as for further expansion of the industrial base. At the same time, the authorities are encouraging the private sector to take on a more active role. Emphasis is being placed on promoting private sector investment in small- and medium-scale ventures, aimed primarily at the domestic market and other GCC countries and in utilities. Also, with existing industrial installations operating at or near full capacity, the authorities have adopted an open door policy allowing 100 percent foreign equity holdings in new large energy-intensive export-oriented industries. In this regard, the go-ahead has recently been given for the construction of an aluminum smelter, due for completion in 1993 (involving 100 percent foreign financing for a total investment of US$1.25 billion), and for the establishment of a ferro alloy plant to enter production in late 1992 (involving US$0.33 billion of foreign financing). Other projects, at various stages of consideration, and also involving foreign investment, include the construction of a new petrochemicals plant and the expansion of ammonia and urea production for export.

The scale of the North Dome investment is such that the authorities are placing increasing emphasis on the medium-term evolution of the economy. This has led to the creation of a new high level state planning agency (with technical assistance from the World Bank and UNDP) which offers a welcome opportunity to strengthen communications and coordination among the various economic departments. The staff team encouraged the authorities to move ahead in this direction so as to remedy a long standing deficiency in the economic policy apparatus.

The Qatar representatives stated that the development and exploitation of the country's hydrocarbon resources and the diversification of industry were being closely coordinated with the GCC in an effort to achieve a rational and efficient allocation of investment throughout the region and to avoid duplication of projects. The range of investment incentives and technical services provided by the Government to promote private sector investment are consistent with GCC guidelines and regulations. While the authorities are prepared to consider offering

---

1/ Qatar Gas is the holding company responsible for the development of the North Dome project.

temporary protection to new domestic activities that are demonstrably viable and efficient over the medium term, and to restrict unfair competitive practices like dumping (as they had done recently in the case of steel), they underscore their commitment to the maintenance of Qatar's traditional liberal and open trading and exchange system.

2. Financial policies

A review by the staff team of developments and prospects regarding the implementation of the budget for the current fiscal year (ending March 1990) points to higher revenues and lower expenditures than envisaged in the original estimates (Table 2). Due mainly to higher oil revenues, based on current production and price estimates, and allowing for the diversion of the proceeds of a portion of oil export earnings for financing the North Dome project (see above), total receipts are now projected at QR 7.8 billion, some QR 2 billion above the official budget. At the same time, revised estimates point to total outlays falling short of the original budget by about QR 1 billion, leading to an overall deficit in the order of QR 2.5 billion (11 percent of GDP). This is a much smaller deficit than budgeted and would represent a substantial improvement in the overall budgetary position compared with the past few years. The Qatar representatives broadly concurred with these revised estimates.

The staff team commended the authorities for their efforts to reduce government expenditures in recent years in order to stem the deterioration in the external position. However, to the extent that a large backlog of government domestic arrears had built up, the compression of government expenditures, as reflected in the cash outlays in the budget, overstated the actual savings that had been achieved. The staff team urged the authorities to provide for an orderly reduction in arrears so as to remove a potential source of instability in financial management, and an element of uncertainty for the private sector.

Looking ahead to the medium term, the authorities believe that further savings in current outlays are feasible over the range of spending categories (including defense), largely through cuts in overstaffing. On the side of the capital budget, as noted above, efforts are being made to encourage the private sector and foreign investors to play an expanded role in investment in industry, as well as utilities, based on government contracts to supply inputs or purchase output at commercial prices. At the same time, a variety of measures is being contemplated to boost revenues, including the introduction of, or increases in, fees and charges for government services and utilities, and a widening of the corporate tax net.

Table 2 . Qatar: Summary of Government Finances, 1984/85-1989/90

(In billions of Qatar riyals)

Fiscal Year 1/	Actuals 1984/85	Actuals 1985/86	Actuals 1986/87	Actuals 1987/88	1988/89 2/	1989/90 Budget	1989/90 Revised Est.
Revenue	13.6	10.4	5.9	7.1	6.6	5.8	7.8
Oil and gas	11.9	7.6	3.1	4.6	5.1	4.1	6.1
Non-oil	1.7	2.8	2.8	2.5	1.5	1.7	1.7
Of which: Investment income	(1.2)	(2.2)	(2.2)	(1.8)	(0.9)	(1.0)	(0.9)
Other revenue	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.8)
Expenditure	12.2	10.4	10.4	10.4	12.3	11.5	10.5
Current	10.2	8.7	9.0	9.0	10.9	10.0	9.1
Capital	2.0	1.7	1.4	1.4	1.4	1.5	1.4
Net lending and equity participation	0.2	0.3	-0.1	-0.8	-0.2	-0.2	-0.2
Overall balance	1.2	-0.3	-4.4	-2.5	-5.5	-5.5	-2.5
Memorandum item							
Deficit/GDP	4.6	-1.4	-24.1	-12.4	-26.5	-23.4	-10.7

Source: Ministry of Finance and Petroleum.

1/ The budget years are: 1984/85 from April 3, 1984 to March 21, 1985; 1985/86 from March 22, 1985 to March 11, 1986; 1986/87 from March 12, 1986 to February 28, 1987; and, 1987/88 from March 1, 1987 to February 18, 1988; 1988/89 from February 19, 1988 to March 31, 1989.

2/ Prorated for twelve months.

In the face of dwindling government deposits with the domestic banking system and with a view to averting any further drawdown of international reserves, the authorities are exploring a number of initiatives to provide for the financing requirements of the Government. This year a loan of US$150 million has been obtained from commercial sources (including Qatar National Bank) for budgetary financing and an additional commercial loan of US$200 million is being arranged. Serious consideration is also being given to the introduction of government debt instruments to tap private sector resources; in this regard, the authorities are following closely the recent experience of other GCC countries. It is recognized that, to be successful, these securities would have to be made attractive to commercial investors and, for this purpose, consideration is being given to alternative mechanisms for ensuring a realistic rate of return.

The authorities are examining the implications of the possible introduction of government securities for the conduct of interest rate policy. Though the banking system remains financially sound, indications are that the rigidity of domestic interest rates has complicated the operations of the commercial banks. Thus, about 60 percent of the assets of domestic banks are presently denominated in Qatar riyals, on which interest rates are maintained at fixed, relatively low levels. At the same time, banks have to compete with the international markets for deposits; about half of bank deposits are currently denominated in foreign currency. Divergencies between domestic and international interest rates can provoke arbitrage and speculation with the result that local banks are exposed to loss of earnings through negative spreads. The staff team expressed the view that the ongoing reassessment of interest rate policy was timely and that deregulation of domestic interest rates would be consistent with the efforts of the authorities to ensure a strong and dynamic financial sector.

3. External policies and medium-term outlook

The staff representatives and the authorities were broadly in agreement on the anticipated outturn of the balance of payments for 1989 and prospects for the medium term. In 1989, an increase in the trade surplus, associated primarily with higher oil earnings, is expected to outweigh some further growth in the deficit on services and transfers, owing to a further fall in investment income, thus leading to a substantial improvement in the current account. This, together with a lower deficit on capital account, reflecting some official borrowing (US$150 million), is expected to result in an overall deficit of less than US$200 million, markedly lower than in any of the past three years.

Medium-term balance of payments projections, drawn up in collaboration with the authorities, point to the impending re-emergence of a current account surplus (reaching the equivalent of some 4 percent of GDP by 1992). The prospective improvement in the current account would be sufficient to cover the expected amortization of recent and planned official foreign borrowing over the coming years as reflected in an increasing deficit on capital account. As a result, the overall external payments position is projected to be marginally in surplus over the period.

Underlying these projections are a number of assumptions which are outlined in Appendix I, Table 3. Foremost among them is that, in pursuit of their goal of avoiding any further drawdowns of international reserves, the authorities achieve a gradual reduction in the overall budget deficit from that estimated for the current fiscal year (ending March 1990), i.e., 11 percent of GDP. Given the prospective need to reduce the large outstanding arrears, this will require efforts to expand revenues and achieve further economies in spending as indicated in Section 2 above. Assumptions regarding oil export prices are consistent with those in the World Economic Outlook while Qatar's oil exports in volume terms are projected to rise by 4 percent annually, reflecting the anticipated increase in world demand for OPEC oil as well as increased exports of condensates. The import projections are consistent with staff projections of world market prices and real non-oil GDP growth in Qatar of the order of 3 percent annually. Implicit in these projections is the further expansion of Qatar's industrial base and a consequent expansion of non-oil exports.

Based on the working assumptions underlying them, the medium-term projections envisage a highly satisfactory evolution of the balance of payments over the medium term. Of course, the external position will remain heavily exposed to the uncertainties of the world oil market. For example, if oil prices during 1990-92 were to be say, 20 percent lower than those assumed above, Qatar's foreign exchange earnings would be lower by US$1.75 billion over the period. In the absence of policy action, and other elements of the balance of payments remaining unchanged, Qatar's international reserves would still be at the equivalent of about one year's imports at end-1992. While this outcome is by no means unmanageable, indications are that, in such an event, the authorities would act to avert reserve losses through some combination of tighter domestic policies and foreign borrowing.

The Qatar representatives confirmed that there have been no fundamental changes in reserve management or investment policy since the last consultation. Foreign assets are primarily invested in major capital centers in financial instruments--bonds, equities, and bank deposits; the authorities have no plans to diversify into nonfinancial assets. Given the limits to the scope for efficient domestic investment, foreign investment is seen as a productive form of diversification, and investment income is viewed as an important stabilizer in the budget and balance of payments.

There have been no changes in Qatar's exchange rate arrangements or trade system since the last consultation. The authorities are satisfied with the present exchange rate policy which is to maintain the riyal in fixed relationship to the U.S. dollar. While it is recognized that such a policy can lead to wide swings in the value of the riyal in real effective terms, the authorities place considerable weight on stability of the riyal-dollar rate, given the large share of the country's foreign trade that is either denominated in or financed in dollars. It is believed that such an arrangement is preferred by local traders and helps deter speculation. The authorities also point out that their exchange rate policy is in conformity with that of most other members of the GCC. More generally, Qatar continues to play its part as a member of the GCC in implementing economic policies in conformity with the program of joint economic action.

IV. Staff Appraisal

Through the judicious exploitation of its hydrocarbon resources and prudent and pragmatic implementation of economic and financial policies in the context of a volatile and uncertain global energy market, Qatar has attained considerable economic and social progress in recent years in a climate of domestic political stability. Already close to the top of the world's income league, there are few clouds on the economic horizon.

In the two years since the last consultation, Qatar has staged a modest recovery with real non-oil GDP rising by 1.5-2.0 percent annually. Underlying this recovery is some letup in the prolonged fiscal retrenchment and compression as oil export earnings firmed up after the 1986 slump, combined with strong gains in non-oil exports. In addition, the implementation of a major local project to tap the vast offshore gas deposits of the North Dome field has given a boost to confidence as well as domestic activity.

The first phase of the North Dome field project--due for completion in about 12 months--brings promise of great benefit to the domestic economy and the balance of payments by putting an end to power shortages and removing a long standing bottleneck to the further expansion of energy-intensive industry--an area in which impressive progress has already been achieved. Increased emphasis on private sector participation in industry--in medium- and small-scale ventures--is to be welcomed as is the effort to attract foreign direct investment and technology. Qatar is planning its further industrial development in close consultation with its GCC partners. While offering a variety of incentives to promote private sector investment, the authorities continue to believe that protection and support should be limited to fostering the growth of new industries or to countering unfair trading practices. Qatar's trade and exchange system remains one of the world's most open, and this provides an excellent atmosphere for the further development of viable, efficient activities as well as for attracting foreign investment. On the whole, prospects for the non-oil sector appear good; growth is likely to pick up to at least 3 percent annually in real terms over the medium term, which is at the upper end of the range of the GCC countries.

Medium-term balance of payments projections, prepared by the staff in collaboration with the authorities, envisage approximate equilibrium in the overall payments position in the coming years. Such an outturn would be consistent with the stated intention of the authorities to avoid further reserve drawdowns. This goal is understandable in light of the extent of reserve use in recent years and the acknowledged benefits for both the budget and the balance of payments of a large and relatively stable investment income, given the volatility of oil revenues. However, having regard to the obvious uncertainties in the medium-term outlook on the one hand, and the desire of the authorities to press on with their longer-term aim of developing and diversifying the economy on the other, these domestic and external goals carry a number of implications for policy.

To begin with, fiscal policy, which is the key determinant of domestic economic activity and the balance of payments outcome, will have to continue to be implemented pragmatically and flexibly. The progress that has been made to date in reducing overstaffing in the public sector and rationalizing government expenditure is a good augury for further success in these directions. However, the staff would stress the need to avoid recourse to arrears as a substitute for genuine expenditure restraint, and would urge the authorities to aim at an orderly reduction of the existing backlog of payments. The staff welcomes the intention of the authorities to achieve further economies in expenditure and their plans to introduce fees and charges for a variety of government services in an effort to broaden the revenue base and to promote efficiency. The staff also endorses the plans to rely on the private sector for the development of infrastructure in support of the continued expansion of public services.

No doubt considerable further scope exists for strengthening the budgetary position by these means. Nevertheless, the budget is likely to remain in deficit over the medium term and new financing mechanisms are now, of necessity, under consideration. For this purpose the possible introduction of government debt instruments would be timely, and in line with similar moves by other GCC member countries. Critical to the success of such instruments, in the view of the staff, will be their financial terms and, hence, their attractiveness to potential investors outside the public sector. In this context, the ongoing official review of interest rate policy is of direct relevance. Action to liberalize domestic interest rates would also serve to correct the existing anomaly whereby interest rates on domestic currency deposits and loans are fixed and rigid whereas banks are, in effect, obliged to pay or charge market-related rates on foreign currency operations. This complicates the operations of the commercial banks, and runs counter to the efforts of the authorities to promote an efficient and dynamic financial sector. Interest rate differentials can also contribute to unwanted or disruptive external capital movements under the present exchange rate system.

The authorities are to be commended for the various actions taken in recent years aimed at preserving the soundness of the banking system through the introduction of stricter banking procedures and the rationalization of reserve requirements. Though the discount facility (introduced in 1987) has not been used as yet, this reflects, at least in part, a dearth of eligible paper. The introduction of government debt instruments offers scope for an active discount facility and for the development of a potentially important mechanism for influencing liquidity in a more integrated domestic financial setting.

Qatar's recent approaches to world capital markets seem well conceived and well timed given the still comfortable external asset position. Such recourse has been limited and prudent in the past. Moreover, much of this year's borrowing will go toward financing the development of the North Dome gas field--a project with a very rapid payoff. The staff hopes that in light of the country's improved prospects, Qatar will be able to reverse the recent decline in its external economic assistance.

The long-term stability of the exchange rate of the Qatar riyal vis-a-vis the U.S. dollar is regarded by the authorities as an important element in assuring confidence and stability for local traders, especially since the bulk of Qatar's foreign trade is in the dollar area or dollar denominated. Given the volatility of international exchange rates and the efforts of the authorities to achieve continued industrial development and diversification, movements in the trade-weighted external value of the riyal (adjusted for inflation differentials) should be monitored carefully to ensure that the competitiveness of domestic producers is not unduly eroded.

Finally, the staff notes the establishment of a national planning commission with assistance from the World Bank and UNDP, and the intention of the authorities to seek to frame economic policies in a longer-term perspective. This initiative is to be welcomed and the staff would hope that in this process, strengthened efforts will be made to improve coordination and communication among the various agencies of Government responsible for economic policy. At the same time, the staff would urge the authorities to seek to improve the statistical apparatus and the data base, noting the Fund's readiness to assist in any such endeavor.

The staff recommends that the next Article IV consultation with Qatar be held within 24 months.

Table 3. Qatar: Balance of Payments Estimates and Projections, 1986-92

(In millions of U.S. dollars)

	1986	1987	1988	Projections 1989	1990	1991	1992
Exports	1,849	2,043	2,210	2,635	2,797	2,981	3,310
Oil	(1,433)	(1,555)	(1,466)	(1,841)	(1,951)	(2,102)	(2,266)
Non-oil	(416)	(488)	(744)	(794)	(846)	(879)	(1,044)
Imports	-1,099	-1,134	-1,267	-1,374	-1,429	-1,484	-1,538
Trade balance	750	909	943	1,261	1,368	1,497	1,772
Services and transfers (net)	-939	-1,078	-1,204	-1,294	-1,379	-1,396	-1,429
Investment income	624	477	313	250	214	220	234
Other receipts	112	67	53	60	69	77	82
Remittances	-1,001	-946	-892	-907	-949	-962	-989
Other payments	-642	-656	-663	-687	-701	-720	-742
Official transfers	-31	-20	-15	-11	-12	-11	-14
Current account	-189	-169	-261	-33	-11	102	343
Capital movments (net)	-298	-283	-353	-154	36	-49	-316
Official	-105	-96	-159	38	225	165	-82
Private (including errors and omissions)	-193	-187	-195	-192	-190	-214	-234
Overall balance	-487	-452	-614	-187	25	52	27
Change in reserves (increase -)	487	452	614	187	-25	-52	-27
Memorandum item:							
International reserves	4,469	4,016	3,402	3,215	3,240	3,292	3,320
(In months of imports)	49	43	32	28	27	27	26

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

Assumptions Underlying the Balance of Payments
Estimates for 1989 and Projections for 1990-92

1. The 1989 estimates are based on the following assumptions:

a. The export price of crude oil is expected to average US$15.50 per barrel and export volume to average 323,000 b/d during the year.

b. Non-oil exports are expected to grow modestly in 1989 compared to the sharp increase in 1988, as increases in export prices of major products, especially petrochemicals and steel, are expected to slow down.

c. Total imports are expected to increase by 5 percent in 1989 mainly due to higher imports of machinery and equipment related to the North Field Gas (NFG) project.

d. While the private sector and QMA investment income are projected taking account of recent trends and interest rate developments, government investment income is expected to shrink along with the shrinking size of foreign assets.

e. The recent downward trend in outward workers' remittances is expected to be reversed in 1989 reflecting renewed activity associated with the NFG project.

f. The projected narrowing of the capital account deficit in 1989 reflects government borrowing (US$150 million) in that year.

2. The projections for 1990-92 are based on the following assumptions:

a. The average export price of crude oil is projected to remain constant in real terms; average export volume is expected to increase by 4 percent per annum reflecting growing world demand and exports of condensates.

b. Non-oil exports are projected to rise roughly 3 percent annually in real terms consistent with non-oil GDP growth of about the same rate.

c. The volume of imports is projected to remain unchanged over the period, as the decline in volume associated with the completion of the NFG project in 1991 is expected to be offset by the commencement of small gas-related projects and some increase in imports of consumer goods. Prices are projected to rise with world market dollar prices of manufactures.

d. Investment income is projected on the basis of expected interest rate developments and changes in foreign assets of the Government that result from the balance of payments developments over the period.

e. Outward workers' remittances are likely to grow as a result of the NFG project.

f. Capital output projections are based on the assumption that the Government and the state oil corporation will draw upon their recently negotiated loans, US$200 million and US$400 million, respectively, during 1990-91 in equal installments. Projections are also adjusted for an assumed repayment schedule.

g. Underlying the balance of payments projections is the assumption that the budget deficit gradually declines over the medium term reflecting real revenue growth of about 3 percent annually (primarily oil) and roughly constant real expenditures.

Qatar: Basic Data

I. Economic Indicators, 1983-89

	1983	1984	1985	1986	Est. 1987	Est. 1988	Proj. 1989
Oil production 1/							
In million barrels	107.3	147.1	111.8	122.2	107.0	124.4	132.0
In thousand barrels per day	294.0	401.9	306.3	334.8	293.1	340.0	361.6
Oil export price (US$/barrel)	27.58	19.87	25.78	12.79	16.77	13.09	15.50
				(In percent per annum)			
Rates of change							
Oil production	-10.4	37.1	-24.0	9.3	-12.4	16.3	6.1
Real non-oil GDP	-2.1	4.1	-2.4	-0.2	1.3	2.0	2.5
Cost of living index	2.7	1.1	1.9	1.6	3.6	4.8	4.5

	1983/84	1984/85	1985/86	1986/87	1987/88	Prorated 1988/89	Budget 1989/90
				(In millions of Qatar riyals)			
Government finances 2/							
Revenues	12,848	13,610	10,393	5,884	7,094	6,590	5,834
Of which: oil and gas	10,902	11,877	7,573	3,048	4,634	5,091	4,164
Investment income	1,367	1,185	2,177	2,190	1,839	875	1,020
Other	579	548	643	646	620	624	650
Expenditures	12,517	12,173	10,374	10,427	10,373	12,329	11,522
Current	9,457	10,204	8,690	8,942	8,963	10,880	10,009
Capital	3,060	1,970	1,684	1,484	1,409	1,448	1,513
Net lending and equity participation	580	278	323	-107	-818	-216	200
Balance (deficit -)	-249	1,159	-304	-4,436	-2,460	-5,522	-5,487
(As percent of GDP)	(-1.1)	(4.6)	(-1.4)	(-24.1)	(-12.4)	(-26.5)	(-23.4)

	1983	1984	1985	1986	1987	1988	1989 3/
				(In percent per annum)			
Changes in money and credit							
Money and quasi-money	-1	22	9	11	9	-8	8
Foreign assets (net)	-19	63	13	--	12	-5	-6
Net domestic assets	28	-20	2	36	3	-14	37
Domestic credit	9	-10	18	25	9	6	11
				(In millions of U.S. dollars)			
Balance of payments							
Exports	3,297	3,364	3,098	1,849	2,043	2,210	2,635
Of which: oil	(2,813)	(2,809)	(2,634)	(1,433)	(1,555)	(1,466)	(1,841)
Imports, c.i.f.	-1,456	-1,162	-1,139	-1,099	-1,134	-1,267	-1,374
Trade balance	1,842	2,202	1,959	750	909	943	1,261

Qatar: Basic Data (concluded)

	1983	1984	1985	1986	1987	1988	Proj. 1989
Services and private transfers (net)	-1.432	-1,304	-1,145	-939	-1,078	-1,204	-1,294
Current account	410	897	814	-189	-169	-261	-33
Capital account 4/	-1,017	-559	-707	-298	-283	-353	-154
Overall balance (deficit -)	-607	339	108	-487	-452	-614	-187
Reserves (end-year, US$ billions)							
International reserves	4.5	4.8	4.9	4.5	4.0	3.4	3.2
(In months of imports)	37	50	52	49	43	32	28
Exchange rate 5/							
Nominal rate (QRls/US$)	3.64	3.64	3.64	3.64	3.64	3.64	3.64
Change in NEER (in percent)	5.6	7.5	2.7	-18.3	-10.8	-5.1	6.1
Change in REER (in percent)	3.9	4.4	0.6	-18.1	-10.0	-4.4	6.2

II. Social and Demographic Indicators

Area	
Total land area (square kilometers)	11,000
GDP per capita (1988)	US$14,500
Population characteristics	
Total (1986)	369,079
Urban (share of total)	88 percent
Population growth rate	5.7 percent
Life expectancy at birth	69 years
Infant mortality rate (per 1000)	33
Child death rate (per thousand)	3
School enrollment (1985)	96 percent
Health, education and energy use	
Population per physician	1,300
Population per nurse	500
Access to safe water (share of population)	95 percent
Newspaper circulation (per thousand of population)	100

Sources: Qatar authorities; staff estimates; and World Bank, Social Indicators of Development (August 1988).

1/ Includes condensate.
2/ Fiscal year based on Islamic (Hijri) years.
3/ January-June.
4/ Including errors and omissions.
5/ For 1989, nominal effective exchange rate (NEER) change is at yearly rate for January-September 1989; real effective exchange rate (REER) is based on cost of living index (available on annual basis only) as deflator.

Qatar: Statistical Issues

1. Outstanding statistical issues

a. Real sector

The Bureau of Statistics does not receive real sector data from Qatar on a regular basis. Data on the real sector are contained in the Annual Report of the Qatar Monetary Agency. The Annual Report for 1988 is presently under preparation and will be circulated in about three months. In general, the coverage of statistics on the real sector needs improvement.

b. Government finance

The Government Finance Statistics Yearbook does not include a presentation for Qatar because of the unavailability of national data on a current basis.

c. Balance of payments

Balance of payments data compilation remains highly aggregated in nature, partly as a result of the openness of the economy which makes it difficult to record international transactions. There is no balance of payments presentation in IFS.

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 December 1989 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Qatar Monetary Agency which during the past year have been provided on an infrequent basis.

Status of IFS Data

		Latest Data in December 1989 IFS
Real sector	- National accounts (GDP only)	1986
	- Prices: CPI	1986
	- Production (crude petroleum)	Q4 1986 1/
	- Employment	n.a.
	- Earnings	n.a.
Government finance	- Deficit/surplus	1982
	- Financing	1982
	- Debt	n.a.
Monetary accounts	- Monetary authorities	September 1988
	- Deposit money banks	September 1988
	- Other banking institutions	n.a.
Interest rates	- Discount rate	n.a.
	- Bank deposit/lending rates	September 1988
	- Bond yields	n.a.
External sector	- Merchandise Trade:	
	- Values--crude petroleum	1985 2/
	Prices--crude petroleum	1985
	- Balance of payments	n.a.
	- International reserves	September 1988
	- Exchange rates	October 1989

1/ Data from July 1984 onwards obtained from Petroleum Intelligence Weekly.
2/ Total exports through 1983 and total imports through 1987.