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December 30, 1985

To: Members of the Executive Board  
From: The Acting Secretary  
Subject: Qatar - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 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 1985 Article IV Consultation

Prepared by the Staff Representatives for the  
1985 Article IV Consultation with Qatar

Approved by A.S. Shaalan and J.T. Boorman

December 27, 1985

I. Introduction

The 1985 Article IV consultation discussions with Qatar were held in Doha during the period October 23-30, 1985. 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, the Ministry of Economy and Commerce, and other public sector agencies and corporations. The mission was composed of Messrs. B.A. Karamali (Head), E.J. Bell, J.G. Borpujari, and D.B. Noursi, and Mrs. M. Redman (secretary), all of MED.

Qatar accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement on June 4, 1973. The last consultation discussions were held in September 1983 and the Staff Report (SM/83/237), together with the report on Recent Economic Developments (SM/83/243), was considered by the Executive Board on December 14, 1983. Relations with the Fund are outlined in Appendix I. The IBRD's latest Economic Report on Qatar was issued in May 1979 and a report on the utilization of the North Dome gas field was completed in 1981.

II. Economic Background

Qatar's economy is heavily dependent on the oil sector which has contributed up to two thirds of GDP in recent years and has provided almost all export earnings and government revenues. In addition to a few oil- and gas-based industrial plants, economic activity other than crude oil production comprises mainly trade, construction, and light manufacturing. While oil reserves are relatively small (estimated to be approximately the equivalent of about 20 years of production at current output levels), Qatar has vast untapped reserves of natural gas, especially in the offshore North Dome field. Over the last decade output of crude oil has been on a downward trend from a peak level of 570,000 barrels per day (b/d) in 1973 to 294,000 b/d in 1983, reflecting initially the Government's conservation policy and, since

1980, the sustained decline in the world demand for oil. 1/ Following a rising trend between 1973 and 1981, the average official price for Qatar's onshore and offshore oil exports declined from the peak level of US\$37.06 per barrel in 1981 to US\$30.20 per barrel in 1983. The economy is highly dependent on expatriate labor, with only an estimated one fifth of the total population of about 257,000 being Qatar nationals.

Economic activity in Qatar is influenced principally by the level of public expenditures which, in turn, are financed almost entirely by oil revenues. The rate of growth of the economy fluctuated around a rising trend between 1974 and 1982 when most of the modern physical infrastructure and several major oil-related projects were being completed. During the two years ended in 1983/84, 2/ economic activity slowed down considerably due to a sharp decline in crude oil production and a slackening of non-oil activity largely brought about by a reduction in government expenditure (Chart 1). The reduced pace of activity as well as the appreciation of the Qatar riyal (which has been pegged to the U.S. dollar since mid-1980 at the rate of QR 3.64 = US\$1.00) against most currencies permitted domestic price stability.

In recent years, the government budgetary accounts have recorded surpluses; however, in view of net lending operations and equity participation, there have been overall deficits in the Government's financial operations. These deficits were financed by a drawdown in the Government's domestic and foreign deposits. In 1983/84, the overall deficit was equivalent to 1 percent of estimated GDP (Table 1).

Following an acceleration in the three years ended 1981, the rate of monetary expansion moderated in 1982 due to the tapering off of the expansionary impact emanating from the external sector. In 1983 there was a marginal decline in overall liquidity due mainly to the sharp drop in net foreign assets and a reduction in the rate of growth of credit to the private sector. There was a marked turnaround in the movement of "other items (net)" reflecting the Islamic Bank's credits to the private sector which have been classified as domestic investments, pending a revision of the classification system.

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1/ Qatar is a member of the Organization of Petroleum Exporting Countries (OPEC) and its oil output accounted for about 2 percent of total OPEC output in 1983.

2/ The fiscal year, which is based on the Hijri calendar, covered the period April 14, 1983-April 2, 1984.

CHART 1  
QATAR  
SELECTED ECONOMIC INDICATORS, 1978-85

(In millions of Qatar riyals, unless otherwise indicated)

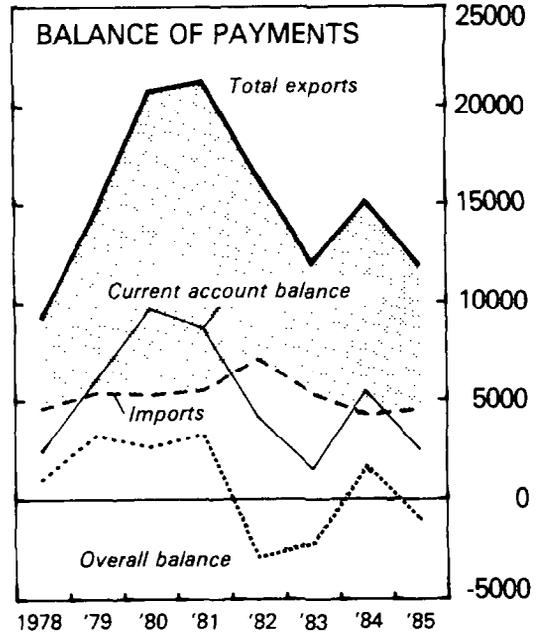
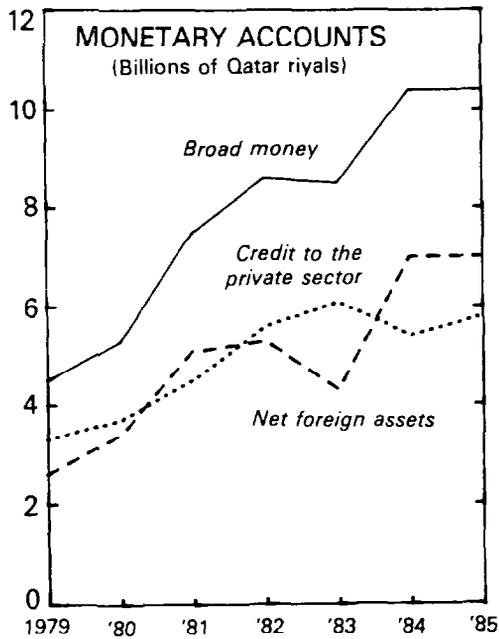
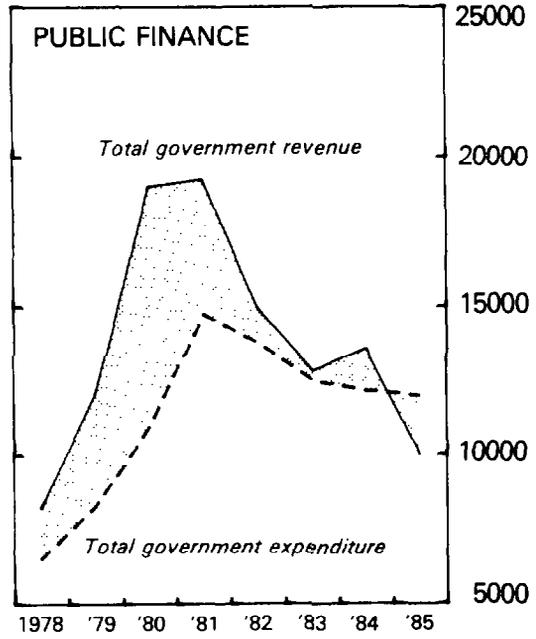
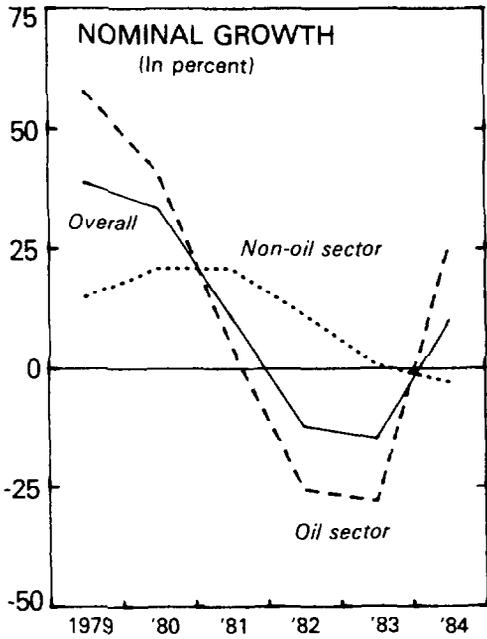




Table 1. Qatar: Selected Economic Indicators, 1981-85

	1981	1982	1983	1984	1985
	(In percent per annum)				
Growth					
GDP at current market prices	11.2	-12.3	-14.9	10.2	...
Non-oil GDP at current market prices	21.0	11.4	0.8	-2.9	...
Oil production (million barrels)	-14.3	-19.0	-10.4	27.2	...
Price index for Doha	8.5	5.7	2.7	1.1	...
	1981	1982/83 1/	1983/84 2/	1984/85	Rev. Est. 1985/86
	(In percent per annum)				
Government finances					
Revenues	1.3	-22.3	-14.1	5.9	-26.5
Of which: oil and gas	-1.5	-26.2	-14.1	8.9	-31.0
Expenditures	34.8	-6.5	-9.2	-2.8	-1.4
Of which:					
Current expenditures	41.7	-10.3	-5.2	7.9	-2.0
Capital expenditures	17.2	5.1	-19.5	-35.6	1.6
	(In percent of GDP)				
Revenues	61.0	54.1	54.6	52.5	...
Of which: oil and gas	54.5	45.9	46.3	45.8	...
Expenditures	46.8	49.8	53.2	46.9	...
Overall surplus or deficit (-)	-0.4	-1.9	-1.1	4.5	...
	1981	1982	1983	1984	June 1984 1985
	(In percent per annum)				
Money and credit					
Money and quasi-money	42	15	-1	22	12 1
Foreign assets (net)	52	3	-19	63	34 --
Credit to private sector	22	24	9	-10	-6 6
	1981	1982	1983	1984	Proj. 1985
	(In millions of U.S. dollars)				
Balance of payments					
Goods and services	2,733	1,285	489	1,593	744
Oil exports	5,351	4,084	2,813	3,590	2,779
Imports, c.i.f.	-1,518	-1,947	-1,456	-1,162	-1,243
Trade balance	4,326	2,560	1,841	2,985	2,023
Services and private transfers (net)	-1,593	-1,275	-1,352	-1,392	-1,279
Grants to less developed countries	-349	-157	-79	-95	-67
Official loans	-69	-65	-95	-87	...
Other capital	-651	-1,031	-474	...	...
Errors and omissions	-761	-794	-436	-982 3/	-952 3/
Overall balance (deficit-)	903	-762	-595	429	-275
Changes in reserves (increase -)	-903	762	595	-429	...
Government	-406	742	319	382 4/	...
Monetary Agency	-51	41	-2	-67	...
Commercial banks	-446	-21	278	-744	...

Sources: Qatar Monetary Agency; and Ministry of Finance and Petroleum.

1/ Prorated for a 12-month period ended April 15, 1983.

2/ Ended April 2, 1984.

3/ Includes other capital movements.

4/ Staff estimate based on discussions with the Ministry of Finance.

For the first time since 1977 the overall balance of payments showed a deficit of US\$0.8 billion in 1982, reflecting a sharp turnaround from the surplus of US\$0.9 billion in 1981. The main reason for this outcome was the decline in oil export receipts by 24 percent and the large growth in imports. In 1983 the current account surplus was reduced substantially from its 1982 level even though the slowdown in budgetary spending and in economic activity led to a 25 percent drop in import payments in 1983. The main factors were the decline in oil earnings which accelerated to 31 percent in 1983 reflecting both the decline in prices following the OPEC agreement of March 1983 and a 13 percent decline in the export volume. Although other exports staged a recovery mainly because of a rise in earnings from sales of liquefied petroleum gas (LPG), total exports were 27 percent lower than in 1982. Additionally, the deficit on account of services widened as the drawdown of foreign exchange reserves in 1982 led to lower investment earnings. Furthermore, there was a rise in remittance outflows which included transfer of savings by departing expatriate workers. Private capital outflows remained substantial and were possibly reflected also in the negative entry under errors and omissions, which has remained consistently large in recent years. Nevertheless, the overall payments deficit narrowed to US\$0.6 billion in 1983, mainly because of a sharp drop in official capital outflows on account of the Government's portfolio investment abroad.

Qatar's exchange system is free of restrictions and the import regime is liberal. Most import items are taxed at a rate of 4 percent. The Qatar riyal is pegged to the SDR at QR 4.7619 per SDR 1 with margins around the SDR parity of 7.25 percent. The U.S. dollar is the intervention currency. Since mid-1980 the riyal/dollar rate has remained unchanged at QR 3.64 = US\$1.00; with the strengthening of the dollar, the riyal/SDR rate moved beyond the 7.25 percent margin beginning in May 1981.

Qatar's economic data base continues to have major deficiencies in respect of coverage and timeliness in key areas despite a significant improvement of several statistical series in recent years. <sup>1/</sup> National income estimates for the period since 1978 were published for the first time in 1983 but the data are available only in current prices. There was also a new household expenditure survey which has provided the basis for a revised consumer price index with a more current weighting system for the period since 1982. The mission's work was hampered, however, as Qatar has ceased publication of the data on oil production and exports from July 1984. Estimates are not available also on the Government's external transactions for 1984 or the current year. The analysis below of balance of payments developments since 1984 is, therefore, based primarily on fragmentary information, some of it from unofficial sources. Moreover, the official balance of payments data have been available only on a highly aggregated basis so that a detailed analysis of the factors

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<sup>1/</sup> Statistical issues are reviewed further in Appendix III.

affecting changes in the external payments position is impractical especially in the case of transactions involving invisibles and capital movements. Furthermore, large unexplained discrepancies continue to exist between the budgetary and the monetary data relating to the Government's financial position vis-a-vis the domestic banking system.

### III. Medium-Term Outlook

During their discussion of the 1983 Article IV consultation with Qatar (EBM/83/172, 12/14/83), Executive Directors commended the Qatar authorities for implementing well-balanced adjustment policies stressing fiscal restraint, in response to the difficult circumstances arising from the sharp decline in oil receipts. They noted that the restrained fiscal stance had led to a marked slowing down in the rate of monetary expansion. Qatar's strategy of continuing to aim at the long-term objective of broadening the country's economic base while taking the necessary adjustment measures was lauded. It was noted that Qatar had been pursuing appropriate external policies, that it maintained a liberal trade and exchange system, and that it had continued its foreign aid programs despite falling oil revenues.

The consultation discussions centered on Qatar's continuing adjustment efforts to the changed circumstances in the world oil situation. The discussion on policies for the medium term was rendered difficult by the lack of adequate data on developments in the oil sector and in the balance of payments since 1984. Near-term prospects are affected also by the uncertainties surrounding the outlook for oil prices. The mission, however, prepared illustrative scenarios for the balance of payments in 1986-87 based on a continuation of recent trends in budgetary outlays and, alternatively, on a tightened fiscal stance to ensure a balanced budget outcome. While both scenarios assume government revenue to be based on an oil production level of 280,000 b/d (the ceiling set by OPEC) and slightly declining official prices, it was recognized that the outcome would be markedly different if oil export proceeds differed substantially from those assumed in the exercise. Other assumptions included a small rise in imports from the 1985 estimates because of the historically low levels reached in 1985. The resulting projections indicate that Qatar would continue to experience an overall balance of payments deficit through 1987 if recent trends in budgetary outlays were to continue, but could achieve a balance of payments surplus in 1987 if fiscal policy were tightened to ensure a balanced budget. However, the likely loss of gross official reserves even under the less austere scenario would leave Qatar in a relatively comfortable position in view of the country's substantial holdings of foreign assets.

#### IV. Developments in 1984-85 and Policy Discussions

##### 1. The energy sector and investment policy

Oil production declined by 10 percent in 1983. The Qatar representatives stated that although difficulties relating to falling reservoir pressure contributed to the decline in 1983, the main reason for the drop in production was the continued drop in demand which was reflected in lower spot market prices that led some term and direct deal buyers away from Qatar's offer of crude oil at unchanged official selling prices.

The staff estimated a 27 percent pickup in oil production in 1984 to an estimated average of 373,000 b/d, on the basis of official data for the first half of the year showing production averaging 420,000 b/d and the staff estimates for the second half of 1984 on the basis of Qatar's OPEC ceiling of 300,000 b/d up to October 1984, and 280,000 b/d subsequently. The Qatar representatives were not in a position to comment on the staff estimates of production for 1984. Official selling prices for Qatar's crude remained unchanged in 1984 but buyers received consideration on an ad hoc basis for an interest-free extension of credit terms from the usual 30 days to 60 days with an additional 30-day extension offered subject to interest charges. Oil exports also benefited from sales in settlement of payments to contractors for a desalination plant and the construction of an export terminal for the new Umm Said refinery.

Official selling prices of Qatar's crude oil were reduced by US\$0.25 a barrel on January 1, 1985 and by a further US\$1.14 and US\$1.00 a barrel, respectively, for the onshore and the offshore output on February 1, 1985. Sales have benefited also from the continuation of a flexible marketing strategy, as well as from several new term contracts with international oil companies.

While no major discoveries have been made in recent years, Qatar signed a 25-year production sharing agreement in June 1985 with an international oil firm and bids have been received for some new concession areas. In December 1983 production was resumed in the Al-Bunduq offshore oil field which is shared equally with the United Arab Emirates. In addition to exploration activities, the Government's energy policy continues to emphasize the development of gas resources for domestic and export purposes. Operation of Qatar's existing utilities and industries at full capacity would call for an estimated daily gas flow of about 500 million cubic feet which would require maintenance of oil production well above the actual crude oil flow since 1981. The decline in oil production as well as the maturing of the onshore nonassociated Khuff gas field have led to a considerable underutilization of capacity in recent years. As a result, the Government has decided to go ahead with plans to develop the vast reserves of nonassociated gas in the North Dome Field reservoir.

The North Dome Field gas reservoir is reportedly the world's largest with proven reserves of 150 trillion cubic feet (tcf) and probable reserves of 400 tcf. In June 1984 the Qatar General Petroleum Corporation (OGPC) signed an agreement with British Petroleum and Compagnie Francaise des Petroles to develop the reservoir in two stages, the first designed to meet Qatar's domestic requirements of gas and the second to generate liquefied natural gas (LNG) exports. Work on the first phase, which is estimated to cost US\$1 billion, will begin in late 1986 and is expected to be completed in the late 1980s in time to offset declining production of nonassociated gas from the Khuff zone; an expansion of this phase is anticipated for a linkup with a proposed gas distribution network of the Cooperation Council for the Arab States of the Gulf (GCC). The Qatar representatives informed the mission that implementation of the second stage, which is estimated to cost US\$6 billion, will depend on the prior procurement of firm sales contracts as well as on positive results from studies of likely trends in demand for LNG in the 1990s.

In recent years the Government has established a number of industries designed to reduce the economy's dependence on the production and export of crude oil. Cement, iron and steel, and fertilizer industries have been established. Also, an industrial port at Umm Said and an industrial estate in Doha have been completed. The Industrial Development Technical Center, together with other departments of the Ministry of Industry and Agriculture, have been engaged in coordinating project planning and supervision and carrying out industrial policy. The Industrial Law of 1980 provides various incentives to encourage industrial development (especially of small- and medium-sized establishments) including tariff protection, exemption of capital goods and raw materials from import duties, preferential purchases by government departments within specified guidelines, assistance and cost sharing of feasibility studies, concessional loans, facilitation of entry of foreign workers, and assistance with workers' accommodations. As a result of these policies, several small industries have been established in food processing, construction material, and other light manufacturing.

The Qatar representatives stated that the major infrastructural investments had been completed, with most of the needed hospitals, schools, roads, and seaport and airport facilities already in place. The large investments in power and water desalination facilities during the past decade have resulted in adequate capacity to meet summer demand for fresh water and for electric power. Both electricity and water are supplied free of charge to all Qatar nationals and to higher ranked expatriates working for the Government. Others are charged a fee for these services that is highly subsidized. The mission was informed that the Ministry of Water and Electricity is considering levying water and electricity charges on all residents.

2. Overall level of economic activity, prices, employment, and wages

The tempo of economic activity (non-oil) recorded a major slowdown in 1983 and 1984 reflecting mainly a decline in government expenditures. The marginal growth in non-oil GDP in 1983 resulted from a pronounced drop in value added in the construction, trade, finance, and real estate sectors. Overall GDP declined by 15 percent in line with the large drop in oil output. In 1984 the recovery in the oil sector was responsible for the 10 percent increase in total GDP; however, the continued decline in government spending contributed to a 3 percent drop in non-oil GDP. As in the previous year, the sectors most affected by the decline were construction, trade, finance, and real estate. The decline in construction was due mainly to the large decrease in government spending on capital projects and the excess capacity of private housing accentuated by the departure of some expatriate labor.

Comprehensive data on employment and wages are not available but preliminary estimates indicate that only about 2 percent of a labor force of roughly 110,000 was unemployed. The economy continues to be highly dependent on expatriate workers who constitute about 85 percent of the labor force in the private sector. As a result of the decline in economic activity, there has been a considerable decrease in demand for expatriate labor; it is estimated that about 15,000 expatriate workers may have been repatriated in the two years ended 1984. The Qatar representatives informed the mission that since 1982 contractors have not been allowed to freely import foreign labor and had to prove their need for such labor to the Ministry of Labor and Social Welfare and be responsible for providing adequate housing for these workers. At present, expatriate labor joins the Qatar labor market within the framework of official labor agreements. Official manpower policy continues to aim at minimizing the dependence on expatriate labor by providing technical education and managerial skills to the Qatar labor force.

Salaries and wages of public sector employees have remained frozen for the last four years. Available information on private sector employment shows that wages in most sectors of the economy had declined from a monthly average of QR 1,300 in 1980 to QR 800 in 1984/85, reflecting the large drop in construction activity which provides employment to about 40 percent of the total private sector labor force. The Qatar representatives indicated that average wages and salaries in the public sector were higher than those in the private sector because of the higher level of education of government employees and the relatively higher proportion of Qatar nationals in government employment.

The deceleration in the rate of inflation which began in 1982 continued in the following two years. After rising by about 6 percent in 1982, the cost of living index recorded an increase of about 3 percent and 1 percent in 1983 and 1984, respectively. In addition to lower demand pressures associated with a decline in total government

spending, other factors contributing to this deceleration include a reduction in the rate of growth of domestic liquidity, a moderation of price increases abroad, and the appreciation of the Qatar riyal. These factors, together with the discontinuation of the meat subsidy in 1984, have contributed to the reduction in the cost of the Government's domestic subsidy program, which involves sales of imported basic consumer products at prices below procurement cost.

### 3. Fiscal policy

Following a weakening in the overall fiscal position in the four years ended in 1983/84, there was a marked improvement in 1984/85 <sup>1/</sup> reflecting the continued restraint on government spending and higher oil receipts associated with the larger volume of exports; despite an increase in customs duty rates from 2.5 percent to 4 percent which took effect in October 1984, non-oil receipts declined mainly due to lower investment income. Total revenues amounted to QR 13.6 billion. The tightened fiscal stance was reflected in a 3 percent decline in total government outlays to QR 12.2 billion principally due to a drop in capital expenditures to about QR 2.0 billion which more than offset a small increase in current spending. As a result, the budget recorded a surplus of QR 1.4 billion. <sup>2/</sup>

The initial 1985/86 budget projected a large increase in total expenditure to QR 15.6 billion and a deficit of QR 5.9 billion. The authorities, however, intend to hold down actual spending to about the previous year's level in view of the substantial decline in oil revenues from 1984/85. Preliminary data indicate that total outlays for 1985/86 are not expected to exceed QR 12 billion while revenue would be some 26 percent lower than in 1984/85. Consequently, a budgetary deficit of about QR 2 billion (equivalent to 8.6 percent of estimated GDP) is anticipated which would rise to QR 3 billion if net lending is included.

After budgetary expenditures reached a peak in 1981, they followed a declining trend in the subsequent three years as the authorities exerted vigorous efforts to hold the line on spending in view of the diminishing oil revenues. The cutback in capital outlays in 1983/84 and 1984/85 was made possible by the completion of major infrastructural projects. A freeze was placed on most new projects and the commitment of funds for the completion of ongoing projects was stretched. With respect to current spending, while salaries remained frozen, stringent efforts were made to control nonsalary outlays (which include purchases of cars, equipment, supplies, furniture, and travel) and to reduce the size of the work force wherever possible. The Qatar representatives indicated that the 8 percent rise in current spending in 1984/85 resulted mainly from hiring highly-skilled technical personnel for the

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<sup>1/</sup> Fiscal year 1984/85 corresponds with April 3, 1984-March 21, 1985.

<sup>2/</sup> If net lending operations and equity participation are included, the overall balance of government financial operations was a surplus of QR 1.2 billion.

various government agencies whose remuneration exceeded those paid to departing lower level employees, and also because of large severance payments made to those who had left. While capital expenditures may increase slightly in 1985/86, it is not expected that in the near term capital outlays would exceed a range of QR 2-2.5 billion per annum. With respect to foreign grants, the Qatar representatives indicated that despite the commitments made to disburse such grants, the tight fiscal situation and the resultant drawdown of foreign assets forced a delay in disbursements. Consequently, such grants which had amounted to QR 1.2 billion in each of 1980 and 1981 dropped to QR 186 million in 1983/84 before rising slightly to QR 260 million in 1984/85. Prospects are that foreign grants will remain at the levels recorded in the two years ended 1984/85.

The mission commended the authorities for pursuing adjustment policies that have stressed fiscal restraint. In view of the uncertain world oil situation, it was important for Qatar to maintain a cautious fiscal stance and to closely monitor spending plans in the years ahead. Though the presence of relatively large foreign assets (estimated at US\$5 billion at the end of 1984) provided a cushion for the authorities to temporarily ease the spending restraint, if there was need to finance an important development project, it was important for the medium-term strength of the fiscal position to initiate measures to raise domestic non-oil revenues and to curtail current budget expenditures. In this regard, the mission stressed the advisability of eliminating implicit subsidies on petroleum products and on water and electricity, and of introducing charges for some government services. The Qatar representatives stated that the Government was reviewing its pricing policies in coordination with other members of the GCC. While no immediate decision was expected, the authorities were also examining proposals to charge fees for some government services in the fields of health and education. Moreover, the authorities intended to review the import duty rates which, although raised from 2.5 percent to 4 percent in August 1984, remained low compared to those charged in some other member countries of the GCC.

#### 4. Monetary developments and policies

Domestic liquidity increased by 22 percent in 1984 reflecting mainly an increase in net foreign assets which more than offset the contractionary effect of the decline in net domestic assets associated with a sharp reduction in private sector credit. Credit operations were affected by the slowdown in the economy, especially the import trade sector, and the more cautious attitude of the banking community with regard to new loans. While there was little change in the net foreign assets of the banking system during the first half of 1985, the major stimulus to monetary expansion was provided by an increase in domestic credit, mainly to finance a pickup in imports. Though the growth in domestic liquidity amounted to only 1 percent during the first six months of the year, the growth rate for the year as a whole was projected at 5 percent reflecting mainly the recovery in private sector credit.

An important aspect of recent monetary developments has been the continued decline in the share of money in total liquidity--from 44 percent in December 1982 to 36 percent in June 1985. The major reason for the increase in the proportion of quasi-money is the growth of term deposits denominated in foreign currency which have been influenced by the interest rate differential between them and those in Qatar riyals which are subject to a mandatory ceiling. <sup>1/</sup> Other contributory factors include the drop in transactions demand for money due to the economic slowdown, the security situation in the region, and the proximity to the offshore banks in Bahrain which offer a wider variety of specialized services and consequently attract deposits from Qatar. The Qatar representatives were cognizant of the effect of the inflexibility of the domestic interest rate structure on the composition of liquid assets. However, religious and social considerations precluded them from initiating changes in the interest rates; furthermore, they were concerned about the inflationary impact of any increase in lending rates. The mission was informed that a technical committee comprising officials of the Ministry of Finance and the QMA had been formed in early 1985 to recommend corrective measures, including the appropriateness of imposing differential reserve requirements for banks on foreign and local currency deposits and the introduction of ceilings on the ratio of foreign asset holdings of the commercial banks in relation to their foreign liabilities. The mission stressed the importance of tackling the problems directly through the abolition of limits on local currency deposits and lending rates, or at least by raising the ceilings which have remained unchanged since 1980. With the subsidence of inflationary pressures in the economy, the possible impact of higher interest rates on domestic prices should not cause much concern.

The Qatar representatives shared the concern expressed by the mission with respect to the quality of the commercial banks' domestic assets portfolio which may have been negatively affected by the slowdown in economic activity, especially the housing sector, during recent years. They stated that the problems faced by the commercial banks on loan repayments were not serious. Some banks had experienced problems in recovering some of their debts in 1983 and 1984, but these were tackled by the banks and clients through rescheduling agreements and capitalization of overdue interest payments. Several banks were asked by the QMA to increase their provisions for doubtful debt. The QMA has also set up a Central Risk Office which consolidates data received from commercial banks on individual credit facilities exceeding QR 100,000. The data are sent back to the banks in order for them to evaluate the risk in extending credit to particular clients in light of their total indebtedness to all banks. The mission stressed the importance of further strengthening the QMA's supervisory procedures and requiring commercial banks to make adequate provisions for bad debts in order to forestall unforeseen difficulties.

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<sup>1/</sup> Since January 1980 rates on deposits in Qatar riyals have been fixed at 4.5-5 percent for saving deposits and 5-7 percent for time deposits. Lending rates have ranged between 7 percent and 9.5 percent. Since 1980, the London Inter Bank Offering Rates (LIBOR) have ranged between 11-14 percent.

## 5. External sector policies

Discussions relating to the external sector developments and policies in 1984 were hampered by the absence of official data on recent oil production and exports and on the Government's external transactions. Estimates prepared by the staff indicate that following two successive years of decline, export receipts rose by about 25 percent in 1984 reflecting higher volumes of oil exports and non-oil products. At the same time, the slowdown in economic activity and in government spending continued to affect the level of imports which declined further by 21 percent to US\$1.2 billion, the lowest level since 1976. The resulting increase in the trade surplus was offset only marginally by the deficit on other current transactions, including larger transfers of workers' remittances associated mostly with departing expatriates. Consequently, the current account surplus rose by US\$1 billion to an estimated US\$1.5 billion and there was a turnaround in the overall balance of payments from a deficit of US\$595 million in 1983 to an estimated surplus of US\$429 million in 1984.

Prospects for 1985 are for a re-emergence of an overall balance of payments deficit of about US\$275 million because of the drop in oil exports as well as a recovery in imports. Based on a production level of 280,000 b/d (the OPEC ceiling) and somewhat weaker prices, receipts from oil exports are expected to decline by 23 percent to US\$2.8 billion; non-oil export receipts are also projected to decline mainly due to lower supplies of associated gas. On the other hand, the value of total imports is estimated to rise by 7 percent from the record low of the previous year in view of stock rebuilding. Thus the trade surplus is estimated to be lower than in 1984, but it is expected to be accompanied by a narrowing of the deficit on current transactions due to reduced workers' remittances and government invisible payments. Consequently, the current account surplus is projected at about US\$677 million which is less than half of the 1984 estimate, and nonmonetary capital flows (including errors and omissions) are projected at US\$952 million.

Policies governing the management of international reserves continue to be guided by security, liquidity, and yield considerations. The available data indicate that at the end of 1984, net foreign assets amounted to about US\$5 billion, equivalent to about 51 months of imports at the 1984 level.

During the period June 1980 to October 1985, the nominal effective exchange rate of the riyal appreciated on an import-weighted basis by about 38 percent. The Qatar representatives saw no reason for any change in current practices of linking the Qatar riyal to the U.S. dollar at a fixed rate. Besides, Qatar's narrow nonenergy production base and limited prospects for non-oil exports served to reduce the role of the exchange rate as a policy instrument. The mission concurred that the maintenance of the Qatar riyal's peg to the U.S. dollar at the existing level was appropriate under present circumstances.

## V. Staff Appraisal

Qatar has adjusted well to the halving in its oil export earnings between 1981 and 1985. The adjustment was facilitated by the completion of major infrastructural facilities and several oil-related projects by the early eighties. The economic slowdown that began in 1983 is likely to persist into 1986 as the authorities have persevered in their efforts to tighten fiscal policy mainly through a reduction in expenditures in the light of the less favorable oil market developments. Prospects for a recovery of the economy are now related principally to the expected commencement of work on the implementation of the massive North Dome Field gas project in late 1986.

The reversal of the downtrend in oil exports during 1984 led to a marked improvement in the overall budgetary outcome in 1984/85. Although budgetary plans for 1985/86 had called for a large increase in both current and capital spending, prospects for lower oil receipts precipitated a prompt revision of spending plans including closer scrutiny of capital projects. The prudent fiscal policy and the containment of the budget deficit in 1985/86 are to be commended. Restrained financial policies coupled with price developments abroad and, up to early 1985, the strengthening of the riyal's exchange rate vis-a-vis currencies other than the U.S. dollar permitted a deceleration in the rise in domestic prices from about 6 percent in 1981-82 to less than 2 percent in 1983-84.

In the immediate future, relatively small budget deficits do not appear to pose any serious problem in view of the substantial holdings of foreign assets. For strengthening the medium-term prospects, however, it would be prudent for the authorities to take further measures to raise domestic non-oil revenue and reduce the growth of current spending. These measures could include a rise in the custom duty rates, the introduction of charges for some government services, raising the domestic prices of petroleum products, and the elimination of the implicit subsidies on water and electricity.

In the monetary policy area, two problems require the urgent attention of the monetary authorities and highlight the need for the OMA to adopt a still more active supervisory role. Indications are that the slowdown in economic activity in recent years, especially in the real estate and trade sectors, may have impeded the ability of some debtors to repay the banks. Moreover, the maintenance of ceilings on interest rates in respect to local currency deposits may have contributed to an outflow of funds and a squeeze on domestic lending operations. The authorities are aware of these problems; an interagency committee has been formed to recommend corrective measures, and a technical note on the interest rate issue has been requested from the Fund staff. In the meantime, it would be advisable for the QMA to issue instructions to commercial banks to promptly make adequate provisions against nonperforming loans.

Qatar has pursued appropriate external sector policies and its foreign aid program has continued, albeit at a reduced level, despite falling oil revenues. Developments in the external sector in 1984 were favorably influenced by the increase in oil exports and receipts which led to a turnaround in the balance of payments to a surplus of US\$429 million. In 1985, however, a deficit is expected to emerge again and the outlook is for the overall payments position to remain weak in view of the prospects now facing the world oil market. The authorities' perseverance with a policy of fiscal restraint is thus well-advised notwithstanding the latitude afforded by the country's relatively large holdings of foreign exchange reserves. Given Qatar's limited potential for export diversification in the nonenergy sector and in import substitution, the practice of pegging the riyal to the U.S. dollar also appears appropriate.

There is an urgent need for attending to the deficiencies in the economic data base. The staff was assured that steps would be taken to improve the flow of statistics to the Fund.

It is recommended that the next Article IV consultation with Qatar be held on the 24-month cycle.

Qatar - Fund Relations

(As of November 30, 1985)

I. Membership Status

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

A. Financial Relations

II. General Department

SDR million

- |  |   |
|--|---|
| a. Quota   | 114.9                                   |
| b. Total holdings of riyals                                | 78.5 (i.e., 68.3 per-<br>cent of quota) |
| c. Reserve tranche position                                | 36.4                                    |
| d. Current operational budget<br>(maximum use of currency) | 0.7                                     |

III. Use of Fund Resources

Qatar has not used Fund resources to date.

IV. SDR Department

- |                              |   |
|------------------------------|---|
| a. Net cumulative allocation | 12.8  |
| b. Holdings                  | 18.2 (i.e., 141.9 per-<br>cent of net cumulative<br>allocation) |

B. Nonfinancial Relations

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\$1.00 since June 1980.

VI. Last Article IV Consultation

Consultation discussions were held in Doha in September 1983; the Staff Report (SM/83/237) was discussed by the Executive Board (EBM/83/172) on December 14, 1983. In the Chairman's summing up, it was expected that the next Article IV consultation would be held on the 18-month cycle.

Qatar: Basic Data

Area	10,365 square kilometers
Population	257,081 (1982 estimate)
Per capita income	US\$28,000 (1984 estimate)

	1981	1982	1983	1984
	(In billions of Qatar riyals)			
GDP at current market prices	31.5	27.7	23.5	25.9
Oil sector	(20.2)	(15.0)	(10.8)	(13.6)
Non-oil sectors	(11.3)	(12.7)	(12.7)	(12.3)
Crude oil production (million barrels)	147.8	119.7	107.3	136.5 <sup>1/</sup>
Price index for Doha <sup>2/</sup>	100.0	105.7	108.6	109.8

	1981	1982/83 <sup>3/</sup>	1983/84 <sup>4/</sup>	1984/85	Budg. Est. 1985/86	Prel. Est. 1985/86
	(In billions of Qatar riyals)					
Government finances						
Revenues	19.2	15.0	12.8	13.6	9.7	10.0
Oil and gas revenues	17.2	12.7	10.9	11.9	8.2	8.2
Investment income and other	2.1	2.3	1.9	1.7	1.6	1.8
Expenditures	14.7	13.8	12.5	12.2	15.6	12.0
Current expenditures	11.1	10.0	9.5	10.2	11.8	10.0
Of which: foreign grants	(1.3)	(0.5)	(0.2)	(0.3)	(0.5)	(...)
Capital expenditures	3.6	3.8	3.1	2.0	3.8	2.0
Surplus or deficit (-)	4.5	1.2	0.3	1.4	-5.9	-2.0
As percent of GDP	(14.3)	(4.3)	(1.4)	(5.5)	(...)	(...)
Net lending and equity participation	-4.6	-1.7	-0.6	-0.2		-1.0
Overall surplus or deficit (-)	-0.1	-0.5	-0.3	1.2		-3.0
Change in government domestic and foreign asset	1.4	-0.7	-0.8	-1.2		
Discrepancy <sup>5/</sup>	-1.5	0.2	0.5	2.4		
Percent change in:						
Revenues	(1.3)	(-22.3)	(-14.1)	(5.9)		
Expenditures	(34.8)	(-6.5)	(-9.2)	(-2.8)		

	1981	1982	1983	1984	June	
					1984	1985
	(In millions of Qatar riyals)					
Changes in:						
Money and quasi-money	2,198.0	1,091.8	-79.2	1,866.3	991.3	64.7
Money	1,129.0	391.7	-170.3	510.0	326.7	-417.7
Quasi-money	1,069.0	700.1	91.1	1,356.3	664.6	482.4
Foreign assets (net)	1,734.2	174.1	-1,006.4	2,703.0	1,443.3	3.7
Net domestic assets	463.8	917.7	927.2	-836.7	-452.0	61.0
Credit to private sector	814.1	1,068.5	480.5	-616.8	-334.0	351.5
Government deposits (net) (increase-)	-80.8	107.2	-69.4	-41.4	25.5	-45.0
Other items (net) (increase-)	-269.5	-258.0	516.1	-178.5	-143.5	-245.4

Qatar: Basic Data (Concluded)

	1981	1982	1983	1984	June	
					1984	1985
(In percent)						
Rate of change						
Money and quasi-money	42	15	-1	22	12	1
Credit to private sector	22	24	9	-10	-6	6
						<u>Proj.</u>
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>		<u>1985</u>
(In millions of U.S. dollars)						
Balance of payments						
Goods and services	<u>2,732</u>	<u>1,285</u>	<u>489</u>	<u>1,594</u>		<u>744</u>
Exports, f.o.b.	<u>5,844</u>	<u>4,507</u>	<u>3,297</u>	<u>4,148</u>		<u>3,266</u>
Of which: oil exports	(5,351)	(4,084)	(2,813)	(3,590)		(2,779)
Imports, c.i.f.	-1,518	-1,947	-1,456	-1,162		-1,243
Trade balance	<u>4,326</u>	<u>2,560</u>	<u>1,841</u>	<u>2,985</u>		<u>2,023</u>
Services and private transfers (net)	-1,593	-1,275	-1,352	-1,392		-1,279
Grants to less developed countries	-349	-157	-79	-95		-67
Balance on goods, services, and official grants	<u>2,384</u>	<u>1,128</u>	<u>410</u>	<u>1,498</u>		<u>677</u>
Official loans	-69	-65	-95	-87		...
Other capital	-651	-1,031	-474	...		...
Errors and omissions	-761	-794	-436	-982	6/	-952 6/
Overall balance (deficit -)	<u>903</u>	<u>-762</u>	<u>-596</u>	<u>430</u>		<u>-275</u>
Change in reserves (increase -)	-903	<u>762</u>	<u>596</u>	-430		...
Government	-406	<u>742</u>	<u>319</u>	<u>382</u>	7/	...
Monetary Agency	-51	41	-2	-67		...
Commercial banks	-446	-21	278	-744		...

1/ Staff estimate.

2/ In 1982 the Central Statistical Organization conducted a new household purchase survey which resulted in various changes in the relative weights of the index.

3/ Prorated for a 12-month period ended April 13, 1983.

4/ Ended April 2, 1984.

5/ Arising from differences in overall balance, as reported by the Ministry of Finance, and the financing item, which is partly derived from the monetary accounts.

6/ Includes other capital movements.

7/ Staff estimate based on discussions with the Ministry of Finance.

Qatar - Statistical Issues

1. Outstanding statistical issues

a. Consumer price index

The methodology underlying the computation of the official consumer price index has been received in the Bureau of Statistics and is being reviewed for its suitability for publication in International Financial Statistics (IFS).

b. Monetary accounts

Data for October 1983 through March 1984 were received in July 1984. No report forms have been received since then. The IFS section for monetary authorities has recently been updated to December 1984 using data published in the Qatar Monetary Agency's Quarterly Statistical Bulletin. The mission impressed upon the authorities the desirability of reporting monetary data to the Bureau of Statistics on a regular and current basis.

c. Government finance

The Government Finance Statistics Yearbook does not include a presentation for Qatar. The GFS questionnaire is sent annually but no reply has ever been received. In part this was due to the unavailability of data on a current basis. However, as a result of the mission's discussions with the authorities, the Qatar Monetary Agency has undertaken to submit to the Bureau of Statistics whatever data are available on a regular basis.

d. External sector

In August 1983, the Qatar Monetary Agency submitted for the first time balance of payments data covering the period 1975 through 1982. However, given the deficiencies in the statistics, the reported data have not been published in IFS or in Balance of Payments Statistics. Meanwhile, a number of clarifications relating to the data have been sought from the authorities.

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 1985 issue of IFS. Except as noted, 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

		<u>Latest Data in December 1985 IFS</u>
Real sector	- National accounts	n.a.
	- Prices	n.a.
	- Production (crude petroleum)	August 1985 <u>1/</u>
	- Employment	n.a.
	- Earnings	n.a.
Government finance	- Deficit/surplus	1982
	- Financing	1982
	- Debt	n.a.
Monetary accounts	- Monetary authorities	December 1984
	- Deposit money banks	March 1984
	- Other financial institutions	n.a.
External sector	- Merchandise trade	
	Value-exports	July 1985 <u>1/</u>
	Value-imports	Q4 1984
	Value-crude petroleum	July 1985 <u>1/</u>
	- Balance of payments	n.a.
	- International reserves	December 1984
- Exchange rates	October 1985	

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1/ Data obtained from Petroleum Intelligence Weekly.