QATAR CENTRAL BANK
Department of Economic Policies

Twenty Eighth Annual Report

2004

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In the name of God

The Most Merciful,

The Most Compassionate

H.H. SHEIKH
Tamim Bin Hamad Bin Khalifa Al Thani
HEIR APPARENT

H.H. SHEIKH
Hamad Bin Khalifa Al Thani
AMIR OF THE STATE OF QATAR

Preface

A. Bin Khalid Al-Attiah
Governor
Qatar Central Bank

I have the pleasure to present Qatar Central Bank (QCB) Twenty Eighth Annual Report on the performance of the Qatari economy in general and the banking sector in particular, during 2004.

The world economy in 2004, witnessed a year of recovery where global growth was the fastest in 25 years, expanding by about 5.1%. Such external environment was favorable to the Qatari economy as the global demand for oil was even strengthened across 2004. Indeed, the Qatari economy has been one of the fastest growing emerging market economies in the world over the past a few years. In the year 2004, the economy has performed splendidly growing by about 20%, thus heaving the average nominal growth rate for the five years period, 2000-2004 to 18.92%. This has put per capita GDP in Qatar among the highest in the world. Non-oil activity has been high over the past year as well, where non-oil GDP growth had accelerated from 10% across 2003 to 14.8% in 2004.

The external sector had sustained its surplus position while its net contribution continued rising for the second consecutive year. The current account surplus in 2004 grew approaching 26.5% of the GDP vis-à-vis 24.4% in 2003. Meanwhile, public debt was partly redeemed and the state budget has been in surplus for the fifth consecutive year reaching 13.8% of GDP versus 4.3% in the previous fiscal year.

Within the framework of its monetary strategy, QCB moved toward more proactive monetary policy stance in its conduct to stabilize the QR exchange rate and to assure the long-standing high credibility of its target peg. QCB foreign currency reserve assets exceeded US$ 3,258 million, growing by 16.6% by year-end 2004.

Within its role in supervising the banking sector, QCB continued through 2004 to ascertain financial stability in the sector, banks' compliance with prudential instructions and adherence to sound banking and financial practices, all along lines of the latest advances in international standards, especially capital adequacy of Basel II. Commercial banks continued to realize steady and firm growth in resources and uses of funds. Monetary liabilities of the commercial banks grew by 14.4% to reach QR 60,264 billion. In the meantime, credit facilities extended to the economy increased by 11.4% reaching QR 48.2 billion by year-end. On the other hand, developments in banking performance indicators exhibit continued improvements. Realized banks' profit rose from QR 1.7 billion in 2003 to QR 2.3 billion; net returns on assets rose from 2.5% to 2.8%; and net returns on shareholders equity increased to 20.8% from 16.1% in 2004.

In this report, the first part is concerned with the QCB financial statement and the report of the external editor. The second part contains the economic report. The general economy is addressed in Chapter One. Foreign trade and the balance of payments are addressed in Chapter Two. Chapter Three is dedicated to QCB monetary policy and monetary developments. Finally, Chapter Four is devoted to developments in the banking sector and Doha stock exchange.

QCB is honored to pay great thanks with the highest respect to His Highness the Amir Sheikh Hamad Bin Khalifa Al Thani, His Highness the Heir Apparent, and His Highness the Prime Minister for their extended support to QCB.

QCB thanks all government agencies, banks, and other financial institutions in the state of Qatar in appreciation for their invaluable contributions to the issuance of this report.

Governor

Abdullah Bin K. Al-Attiah

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Part One

Qatar Central Bank

QATAR CENTRAL BANK

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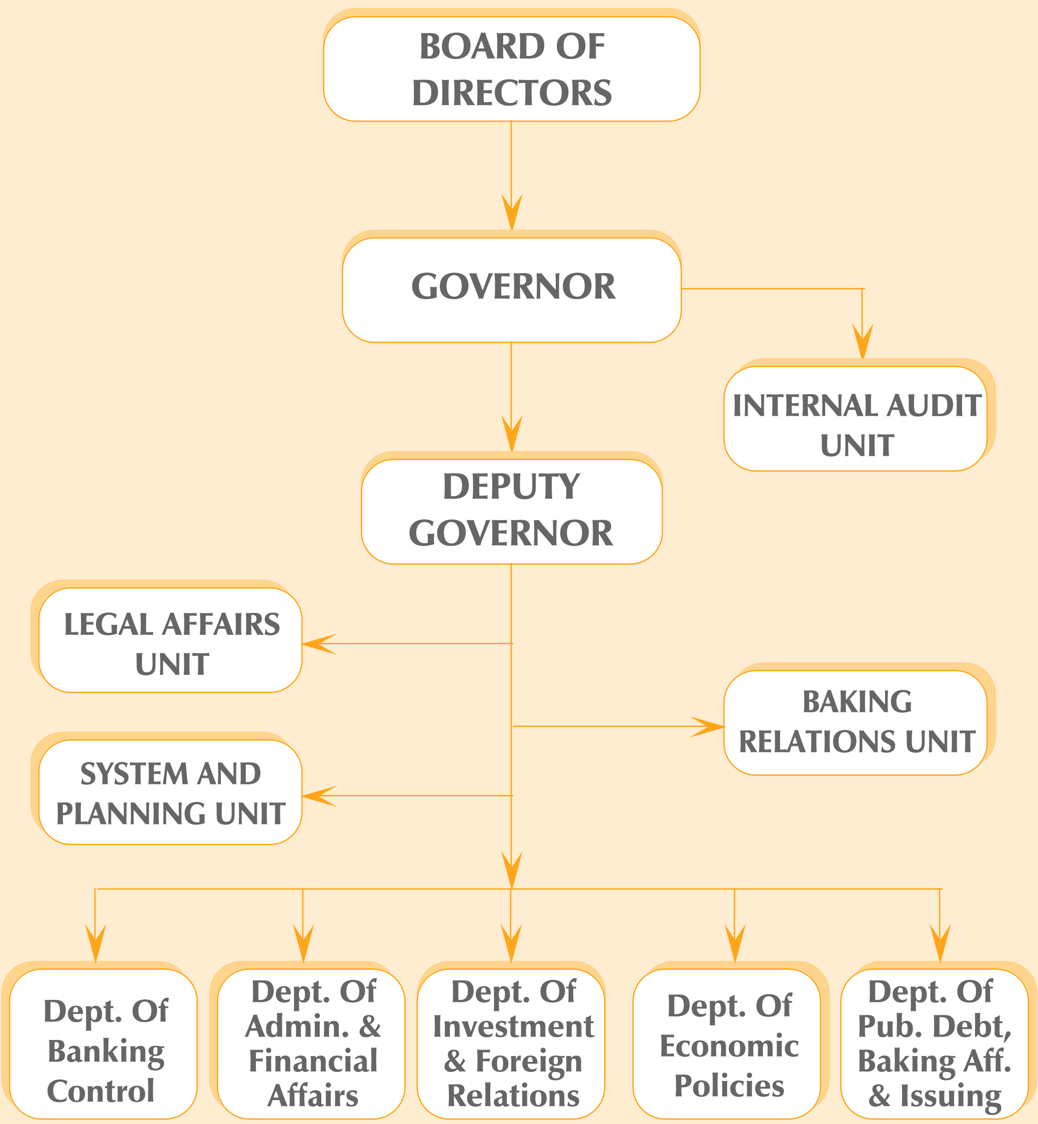


QATAR CENTRAL BANK

QCB Objective:

To establish a monetary and banking system to achieve the QCB goals.

QCB Goals:

1. Securing stability of the Qatari riyal exchange rate and its free convertibility to other foreign currencies.
2. Securing stability of the domestic price levels.
3. Securing financial stability.
4. Contributing to achieve other macroeconomic targets conditional on the above QCB goals.

QCB Functions:

1. To manage and carry out operations associated with the conduct of the exchange rate policy.
2. The making of, implementing, following up and evaluating the conduct of monetary policy.
3. Exercise the privilege of issuance and circulation of the domestic currency.
4. To supervise and control banks, exchange houses, investment companies and financial units.
5. To manage pubic debt of bonds and treasuries inside Qatar.
6. To contribute to policies of financial stability.
7. Act as a bank for all the banks operating in the State.
8. Maintain and employ the reserved funds.
9. Organize and manage bank clearing operations.
10. Conduct studies and research work related to domestic as well as to world economy.
11. Extend economic advice to the government.
12. Promote the development of the banking system.
13. Promote the development of the financial markets and contribute to enhance their efficiency.
14. Any other functions falling within its responsibilities.

REPORT OF THE AUDITORS

To
H.H. The Governor
Qatar Central Bank
Doha
State of Qatar

We have audited the accompanying balance sheet of Qatar Central Bank as of 31 December 2004 and the related statements of income, cash flows and changes in capital and reserves. These financial statements are the responsibility of Qatar Central Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation; we believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly in, all material respects, the financial position of the bank as of 31 December 2004 and the results of its' operations and its' cash flows for the year then ended in accordance with Law No. 15 of 1993 as amended by Law No. 19 of 1997.

T. F. Sexton
Of Ernst & Young
Auditor's Registration No. 114
Date: 18 April 2005
Doha

Balance Sheet at 31 December 2004

(QR Thausands)

Items	2004	2003
ASSETS		
Gold reserves	66,495	28,902
Call and current bank accounts	291,702	14,664
Cash and balances with local banks	98,233	166,867
Deposits with foreign banks	1,490,021	1,680,077
Repurchase agreements with local banks	225,000	-
Balances due from other central banks	2,109	1,619
Investments securities	9,740,967	8,116,639
Special Drawing Rights (SDR) deposit with		
International Monetary Fund (IMF)	136,784	121,696
Investments in international & Arabic monetary Funds	465,347	445,210
Property, plant and equipment - net	79,091	72,865
Ministry of Finance current account	-	15,975
Other assets	94,600	93,514
TOTAL ASSETS	12,690,349	10,758,028
LIABILITIES, CAPITAL AND RESERVES		
Liabilities		
Cash in circulation	3,123,222	2,600,231
Due to banks	2,895,342	1,989,396
Ministry of Finance current account	168,635	-
Balances due to other central banks	1,671	3,512
Foreign currencies revaluation reserve	955,340	791,039
Gold revaluation reserve	11,492	9,691
Other liabilities	26,433	39,705
Total liabilities	7,182,135	5,433,574
Capital and reserves		
Capital	1,000,000	1,000,000
General reserve	4,508,214	4,324,454
Total capital and reserves	5,508,214	5,324,454
TOTAL LIABILITIES, CAPITAL AND RESERVES	12,690,349	10,758,028

Balance Sheet at 31 December 2004

(QR Thausands)

Items	2004	2003
REVENUES		
Interest revenues	206,522	228,284
Interest expenses	(8,418)	(4,455)
NET INTEREST REVENUS	252,104	223,829
Registration fees for banks, exchange and investment companies	3,025	2,669
Net revenues from investment securities	12,978	30,735
Net revenues from investment portfolios	13,428	-
Other income	18,556	14,112
EXPENSES		
General and Administrative expenses	(89,286)	(109,241)
Provision for impairment in the value of investments	(5,205)	(14,570)
Provision for doubtful deposits	(21,840)	(21,840)
NET PROFIT FOR THE YEAR	183,760	125.694

Balance Sheet at 31 December 2004

(QR Thausands)

Items	2004	2003
Operating activities:		
Net profit for the year	183,760	125,694
Adjustments for:		
Depreciation	5,131	4,252
Provision for impairment in the value of investments	5,205	14,570
Provision for doubtful deposits	21,840	21,840
Loss (gain) on sale of fixed assets	34	(153)
Provision for end of service benefits	4,213	6,762
Write off of bank notes and coins printing costs	-	43,385
Operating profit before working capital changes:	220,183	216350
Net decrease (increase) in assets:		
Deposit with banks	252,880	(151,815)
Balances with banks	70,000	-
Investment securities	(1,629,533)	(4,009,390)
SDR deposit with the IMF	(15,088)	(19,092)
Investments in international and Arabic monetary funds	(20,137)	(37,928)
Ministry of Finance current account	184,610	119,170
Others assets	(1,086)	2,516
Net increase (decrease) in liabilities:		
Cash in circulation	522,991	333,612
Due to banks	172,843	201,681
Foreign currencies revaluation reserve	164,301	496,728
Other liabilities	12,551	1,196
Cash used in operations	(65,485)	(2,846,972)
Employees, end of service benefit paid	(30,036)	(380)
Net cash flows used in operating activities	(95,521)	(2,847,352)

Balance Sheet at 31 December 2004

(QR Thausands)

Items	2004	2003
Investing activities:		
Purchase of fixed assets	(11,443)	(2,726)
Proceeds from disposal of fixed assets	53	1,960
Payment for bank notes and coins printing	-	(32,834)
Net increase in gold's reserve	(35,792)	-
Net cash flows used in investing activities	(47,182)	(33,600)
Financing activities:		
Funds transferred from The Ministry of Finance	-	3,640,000
Net cash flows from financing activities	-	3,640,000
(Decrease) increase in cash and cash equivalents during the year	(142,703)	759,048
Cash and cash equivalents at the beginning of the year	743,719	(15,329)
Cash and cash equivalents at the end of the year	601,016	743,719

Part Two

The Economic Report

1 Chapter One

Domestic Economy

Gross Domestic Product

Price Level

Labor Force

Public Finance

Introduction:

The Qatari rate of economic growth is considered among the fastest rate in the world. The Gross Domestic Product (GDP) has been doubled in five years, where it grew by an average rate of 18.9% in the 2000-2004 period. The (GDP) increased by 20% in 2004 and reached a new record of QR 103.56 billion.

The soaring economic growth has been accompanied by a notable increase in the domestic price levels. After years of low rate of inflation around 2.5% or less, the Consumer Price Index (CPI) jumped by 6.8% to reach 109.48 point in average for the year 2004.

The increase in the rate of inflation came; mainly, as a result of rising rents. The depreciation of the Qatari Riyal against the non-Dollar currencies; such, as the Euro and the Japanese Yen has contributed in the price increases of other items.

As for the population and the labor force in Qatar, The third census was conducted in the year 2004 and has shown an increase of 42.5% in number of population to reach 744 thousand habitant.

The total number of labor force of the government sector, the mixed sector and a part of the private sector, grew in the year 2003 by 7.4%. The mentioned increase was a result of the rapid economic growth in the recent years.

The economic developments were mirrored in the public finance data. Total expenditure in the year 2004-2005 reached a new record and the public budget registered a large surplus for the fifth consecutive year. This part of the economic report shed more lights on the above mentioned developments, according to the available data of the national accounts, domestic price levels, labor force and the public finance.

Gross Domestic Product (GDP)

GDP soared to a new record in 2004, registering an increase of 20.0% to reach QR 103.56 billion. Thus, the Qatar economy has extended five years of rapid growth since the year 2000 save 2001. Most of the economic sectors have achieved a high rate of growth in 2004 as shown below.

1. Oil and Gas Sector (OG):

The product of the OG sector jumped in 2004 by 23.5% to reach QR 64.4 billion. The jump in the rate of growth came as a result of increases in oil and gas production and in the price of oil. Crude oil production has increased by 4.6% to reach 754 thousand b/d in 2004, while LNG production rose by 18.7% to 18 million tone, compared with 15.2 million tone in 2003. The average price of Qatar Land crude hiked by 28.9% to $36.1 per barrel, but the LNG price has; marginally, increased to reach $4.77 per million BTU. Thus, the OG sector contribution in the GDP has increased to 62.2%, compared with 60.4% in 2003.

The total product of the Non-Oil sectors has increased by 14.8% to reach QR 39.2 billion as detailed below:

2. Government Services Sector (GS):

The GS sector came second to the OG sector in terms of its contribution to GDP. It grew by 3.5% to reach QR 9938 billion in 2004; and thus constituted 9.6% of the total GDP. Most of the mentioned increase was due to an increase in the number of employees than a change in the scale of wages and salaries.

3. Manufacturing Industries Sector (MI):

The product of the MI sector has grown by 32.2% in 2004 to reach QR 6.5 billion, compared

Box 1

Oil Price During 2004

Several factors have led to oil price increase during 2004, as compared with their levels at the end of 2003. The main factor was the increase in the world oil demand, especially in the USA and China by 2.6 million p/d in the year 2004, to reach 82.1 million p/d. The decrease in gasoline stock in the USA was another factor for the oil price increase.
The average price of the OPEC basket increased by 18.4% in 2004 to reach 36.05 p/b compared with 30.45 p/b in 2003.

The Average Price for OPEC Crude's Basket over the Period 2000 - 2004

Year	$ Per Barrel
2000	27.60
2001	23.12
2002	24.32
2003	30.45
2004	36.05

Source: OPEC Annual Statistical Bulletin.

with QR 4.9 billion in 2003. The big jump in its product came as a result of the capacity expansions in petrochemical complexes and due to increases in the prices of the final products. Yet, the relative importance of the MI Sector in 2004 remained stable at 6% due to the accelerating growth in oil and gas sector.

4. The Finance, Business, Insurance and Real Estate Sector (FBIR):

The FBIR sector came fourth in terms of GDP and its product rose by 9.4% in 2004 to reach QR 6910 million. Its relative importance in GDP decreased to 6.7%, compared with 7.3% in 2003.

5. The Construction Sector:

The product of the construction sector increased by 16.3% in 2004 to reach QR 5.4 billion, after 29.5% increase in 2003. Its relative importance in GDP decreased to 5.2%, compared with 5.4% in 2003, and thus, occupied the fifth rank and has exceeded the trade, restuarant and hotel sector. The hike of the construction sector product has reflected the accelerating growth in the bulding field.

Box 2

World Economic Growth

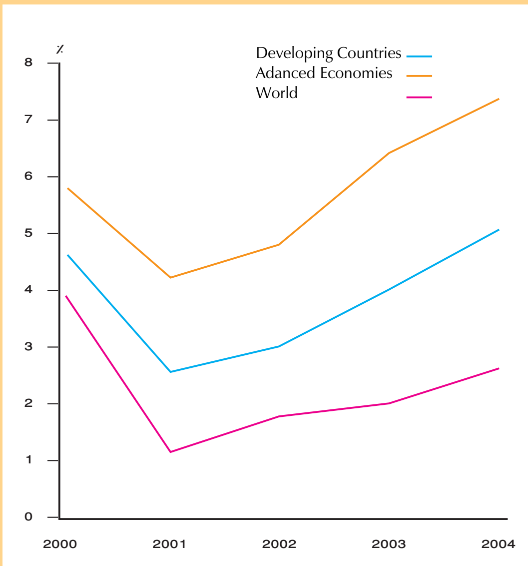
World economy recorded a 5.1% of real growth in 2004. The USA economy grew by 4.4% in 2004 compared with 3.9% in 2003, while the economy of Japan grew by 2.6% compared with 1.4% in 2003.
The Euro zone economy achieved its best growth in five years, where it grew by 2% in 2004.
The developing economies as a whole realized an average rate of growth of 7.2% compared with 6.4% in 2003. The regional groups in Asia, Africa, South America save the Middle East, have recorded notable increases in their rates of economic growth as shown in the table below:

The Average Price for OPEC Crude's Basket over the Period 2000 - 2004

%

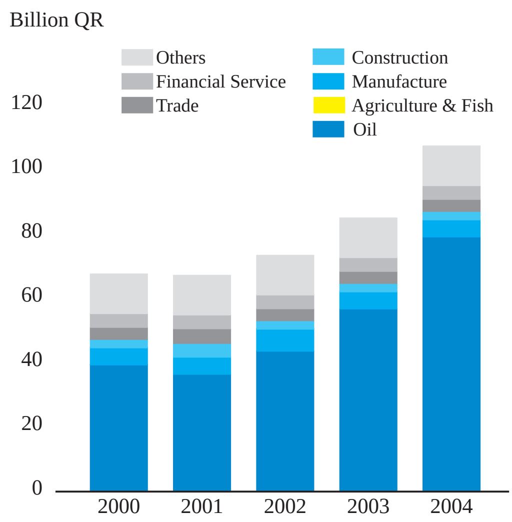
State	2000	2001	2002	2003	2004
World	**4.6**	**2.5**	**3**	**4**	**5.1**
Advanced Economies	**3.8**	**1.2**	**1.6**	**2.1**	**3.4**
USA	3.7	0.8	1.9	3.9	4.4
Japan	2.4	0.2	-0.3	1.4	2.6
Euro Zone	3.6	1.6	0.9	0.5	2.0
Developing Economies	**5.8**	**4.2**	**4.7**	**6.4**	**7.2**
Africa	3.2	4	3.6	4.6	5.1
Asia	6.5	5.8	6.5	8.1	8.2
The Middle East	5.4	3.3	4.1	5.8	5.5
Western Hemisphere	3.9	0.5	-0.1	2.2	5.7
Middle and Eastern Europe	4.9	0.2	4.4	4.6	6.1

Source: IMF, World Economic Outlook, April 2005.



6. The Trade, Restaurant and Hotel Sector (TRH):

The product of TRH sector rose by 18.8% in 2004 to reach QR 5165 million due to the inflated prices of the imported goods, the rapid growth of the economy and the strong recovery of the tourism. The relative importance of its share in GDP increased to 5%, compared with 4.3% in 2003.

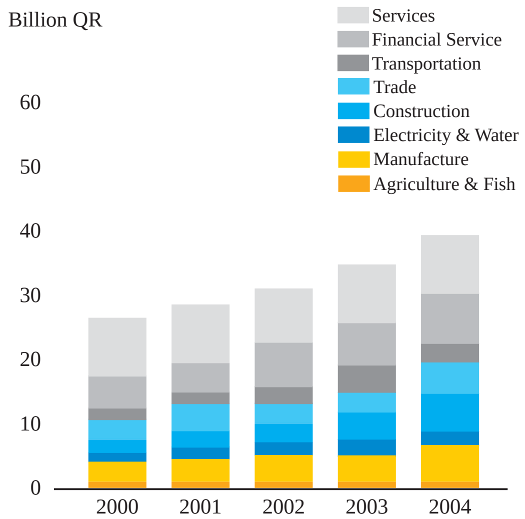


7. The Transport and Communications Sector (TC):

The product of the TC sector increased by 17.6% in 2004 to reach QR 3422 million, and thus represented 3.3% of the GDP in 2004. TC sector is an active and vital sector in the economy of Qatar due to the rapid growth of Qatar Airways and the vast expansion of Qtel services in the internet and mobiles services.

8. The Electricity and Water Sector (EW):

Due to its vital role in the civilian life, and the fast growth in the other sectors, the product of the EW sector soared in 2004 by 29.3% to reach QR 2324 million Its relative share in GDP has marginally increased to 2.2%.



9. The Agriculture and Fishing Sector (AF):

The AF sector came last in terms of GDP, with only 0.2% of the total and QR 202 million, compared with QR 201 million in 2003.

Table (1)

Gross Domestic Product by Economic Sectors (2000-2004)

Millions of QR

	2000	2001	2002	2003	2004
Agriculture and Fishing	**241**	**240**	**181**	**201**	**202**
Oil & Gas	**39065**	**36812**	**40717**	**52130**	**64365**
Manufacturing	**3515**	**3909**	**5075**	**4927**	**6512**
Electricity & Water	**780**	**975**	**966**	**1797**	**2324**
Building & Construction	**2330**	**2938**	**3593**	**4654**	**5414**
Trade, Restuarants & Hotels	**3750**	**3918**	**3882**	**4346**	**5165**
Trade	3347	3478	3491	3787	4485
Hotels	216	243	191	341	401
Restaurants	187	197	200	218	279
Transport & Communications	**2006**	**2223**	**2489**	**2911**	**3422**
Land Transport	393	354	371	427	474
Sea Transport	206	258	281	485	569
Air Transport	341	328	342	525	673
Communications	1066	1283	1495	1474	1706
Finance, Insurance, Real Estate					
& Business Services	**4703**	**5116**	**5723**	**6317**	**6910**
Banks	1682	1974	2463	2903	3197
Insurance	90	98	69	83	91
Exchange Agencies	37	38	44	50	55
Real Estate	2225	2296	2389	2432	2631
Business Services	669	710	758	849	935
Social Services	617	308	615	644	693
Imputed Bank Services Charges	-1390	-1564	-2051	-2403	-2654
Government Services	8181	8489	9506	9600	9938
House Hold Services	**519**	**548**	**571**	**617**	**647**
Custom Fees	**329**	**367**	**466**	**532**	**625**
Grand Total	**64646**	**64579**	**71733**	**86273**	**103563**

The Consumer Price Index (CPI)

The CPI rose by 6.8% to reach to 109.48 point in the average of 2004. There has been a jump in the consumer price index CPI in the first quarter of the year. The number has risen to 107.72 point in the second quarter of the year, compared with 103 point in December 2003.

By the end of December 2004, CPI was at 111.73 point an increase of 8.5% above December 2003.

The data in table no. (2) reveals that two of the groups that constitute the CPI; mainly, housing & supplements and the clothing & footwear were largely responsible of the occurred increase. Brief elaboration on the performance of the price levels for the major commodity groups is presented herebelow.

1. Food, Beverages and Tobacco (FBT):

The index of the FBT group increased by 3.3% in 2004 to 104.22 point. The increase was due to an increase in domestic prices of the meat and fish as a result of privatization of the business and the increase in exporting fish to other countries.

2. Clothing & Footwear (CF):

The index for the CF group

Box 3

The World Inflation Rates

The inflation rates in the developed economies except Canada, increased in 2004, but they decreased in the developing economies, except in Asia. The average inflation rate in the developed countries increased to 2% compared with 1.8% in 2003. The rates in the major countries were as follows: 2.7% in the USA, 2.2% in the Euro zone, and 1.8% in Canada and zero in Japan.

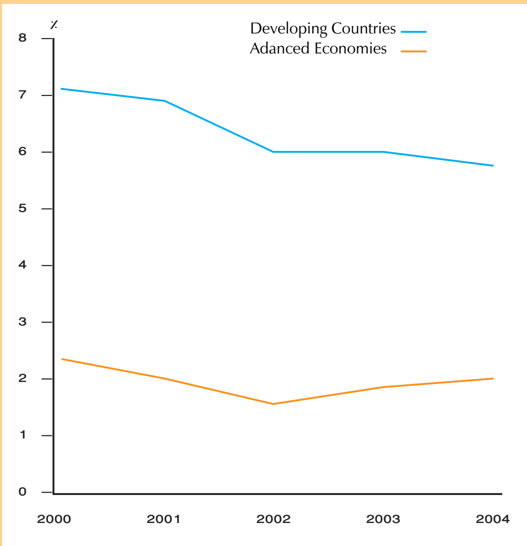
For Developing Economies, the average inflation rate decreased from 6% in 2003 to 5.7% in 2004, albeit the rates differed by region. The rates ranged from 4.2% in Asia, to 6.5% in the western hemisphere, to 7.7% in Africa, 8.3% in the Middle East and 6.6% in the Middle and Eastern Europe.

World Inflation Rates (2000-2004)

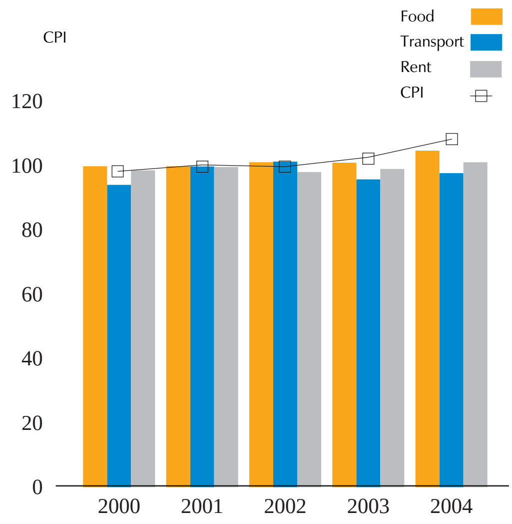
%

State	2000	2001	2002	2003	2004
Advanced Economies	2.1	2.1	1.5	1.8	2.0
USA	2.8	2.8	1.6	2.3	2.7
Japan	-0.7	-0.8	-1.0	-0.2	0.0
Euro Zone	2.4	2.4	2.3	2.1	2.2
U.K	1.2	1.2	1.3	1.4	1.3
Canada	2.5	2.5	2.3	2.7	1.8
Developing Economies	6.7	6.8	6.0	6.0	5.7
Africa	12.1	11.8	9.8	10.6	7.7
Asia	2.7	2.7	2.1	2.6	4.2
The Middle East	5.4	7.1	6.5	7.1	8.3
Western Hemisphere	6.1	6.0	8.9	10.6	6.5
Middle and Eastern Europe	19.4	19.6	14.7	9.2	6.6

Source: IMF, World Economic Outlook, April 2005.



increased by 8.1% in 2004, as its goods were mostly imported from abroad and thus was affected by the depreciation in the QR exchange rates against the Euro and the Yen.



3. Housing & Supplements (HS):

The index of the HS group jumped in 2004 by 16.2%, as a result of soaring demands for the real estates due to the economic growth and the decelerating of the supply.

4. Furniture & Household Supplies (FHS):

The index of the FHS group increased by 3.3% in 2004 due to the depreciation in the QR exchange rates against other currencies.

The increase in the index of this group might be less than in the CF group since most of its components are imported, priced and paid by dollar.

5. Miscellaneous Goods & Services (MGS):

The index of the MGS group increased by 4.1% in 2004 due also to the depreciation in QR exchange rates. The variety of the commodities of the MGS group lessened the effect of the QR depreciation.

6. Transport & Communication (TC):

The index of the TC group increased by 3.7%. This can be referred mostly to the price increases of the travel tickets and the travel expenses in general. Other communications cost as the Internet tariff have been decreased in different occasions.

7. Health Services (HS):

The index of the HS group declined by 1.4% in 2004, as more medical centres and clinics and private hospitals have fired competitiveness. Drugs prices remained high, as a result of the appreciation of the Euro against the QR.

8.) Entertainment & Culture (EC):

The index of the EC group increased by 2.9% in 2004, which might be a result of a higher fees in the private schools and colleges.

Table (2) **Consumer Price Index** **(2001=100)**

Description	2004	2003	Chg %	2004 Q 1	Q 2	Q 3	Q 4
Food Stuff	104.22	100.86	3.3%	103.57	103.15	104.22	105.76
Garments & Cloths	104.6	96.77	8.1%	102.37	104.45	104.6	106. 23
Fuel & Energy	139.55	120.07	16.2%	133.57	138.341	139.55	144.62
Furniture & Appliances	101.91	98.61	3.3%	103.2	103.07	101.91	102.11
Medical Servies	98.93	100.36	-1.4%	98.34	98.64	98.93	101.06
Transport & Communications	95.98	92.59	3.7%	95.4	95.36	95.98	97.49
Educaion & Culture	102.27	99.35	2.9%	100.54	101.62	102.27	103.78
Miscellaneous Goods & Services	110.34	105.98	4.1%	109.74	107.97	110.34	113.32
House Hold Consumption	**109.48**	**102.51**	**6.8%**	**107.72**	**108.75**	**109.48**	**111.73**

The Labour Force

According to the general census conducted in Qatar in April 2004, total number of population has increased by 42.5% to reach 744 thousand compared with 522 thousand in 1997.

The increase has distributed between different municipalities where the habitant of the Doha municipality has increased by 28.7% to 340 thousand, while the habitant of ALRayyan municipality has increased by 60.7% to 273 thousand. AlKhour municipality's habitant has jumped by 77.3% to 31.5 thousand and that of Om Selal by 71.8% to 31.6 thousand.

Box 4

Rates of Unemployment in the Industrial Countries

Unemployment rates in the industrial countries declined in the year 2004.

The rate of unemployment in the USA decreased to 5.5% at the end of 2004 compared with 6% at the end of 2003. The other industrial countries witnessed decreases in their unemployment rates where the rate declined to 4.7% in Japan, and to 4.8% in the UK.

On average, the rate of unemployment in the industrial countries had decreased to 6.3% at the end of 2004, compared with 6.6% in 2003, a decline of 4.5%.

World Inflation Rates (2000-2004) %

State	2000	2001	2002	2003	2004
Industrial Economices	5.8	5.9	6.4	6.6	6.3
U.S.A	4.0	4.8	5.8	6.0	5.5
Japan	4.7	5.0	5.4	5.3	4.7
Euro Zone	8.2	7.8	8.2	8.7	8.8
UK	5.5	5.1	5.2	5.0	4.8
Canada	6.9	7.2	7.7	7.6	7.2

Source: IMF, World Economic Outlook, April 2005.

The male's number has increased in 2004 by 66.7% to 496 thousand, while the female's number has increased by 33.3% to reach to 248 thousand.

According to the classification of the employees by sectors issued by the Planning Council, the total number of the employees in the government sector, government establishments, mixed sector, financial sector and the hotels has increased in 2003 by 7.4% to 80 thousand. The Qatari employees accounted 35.8 thousand or 44.8% of the total employees of the mentioned sectors, 7.5% more than the number of 2002.

The number of Qatari's employees was distributed by sex to 58.1% or 20.8 thousand for males and 41.9% or 15.1 thousand for female.

Total number of the employees in the government sector amounted 37647 worker, 67% of them or 25.2 thousand was Qatari, and 33% or 12.5 was thousand non - Qatari.

Table (3) Labor Force by Sector, Nationality and Sex

Year	Nationality	Gov. Sector	Gov. establishments	Mixed Sector	Private Sector (Banks/Insur. hotels)	Total Male	Total Female	Total Total
2000	**Qatari**	22378	4766	1779	367	17678	11621	29299
	Non- Qatari	13486	11584	7678	2196	29452	5492	34944
	Total	35873	16350	9457	2563	47130	17113	64243
2001	**Qatari**	22388	6238	1974	386	18581	12405	30986
	Non- Qatari	11395	14332	8249	2270	29854	6392	36246
	Total	33783	20570	10223	2656	48435	18797	67232
2002	**Qatari**	23406	7095	2339	443	19678	13605	33283
	Non- Qatari	12075	15113	9863	4196	33783	7464	41247
	Total	35481	22208	12202	4639	53461	21069	74530
2003	**Qatari**	25170	7566	2610	499	20758	15087	35845
	Non- Qatari	12477	16813	10404	4498	35378	8814	44192
	Total	37647	24379	13014	4997	56136	23901	80037
Change (%)	**Qatari**	7.54	6.64	11.59	12.64	5.49	10.89	7.70
During	**Non- Qatari**	3.33	11.25	5.49	7.20	4.72	18.09	7.14
2003	**Total**	6.10	9.78	6.65	7.72	5.00	13.44	7.39

Public Finance

Public expenditure have been, and continued to be, the main source of the domestic liquidity, and a vital source for the economic and social development projects in Qatar. Despite the big jump in the public expenditures in recent years, the fiscal deficits phenomena of the nineties were eliminated and replaced by surplus in the previous five years.

It is well known that the public revenues in Qatar are mainly achieved from oil and gas sector, followed by the investment revenues and then from the taxes and other fees. The public expenditures is distributed upon wages & salaries, loan interest payments and the infrastructure projects allocations. In what follows, the data of both sides of the public budget for the fiscal year 2004-2005 is examined in details, as well as for the estimated figures of the year 2005-2006 budget .

1. Public Budget for 2004/2005:

a. Public Revenue:

The relevant data presented in table (4) reveals that the preliminary figures of the actual public revenue increased in the fiscal year 2004-2005 by 61.3% above the actual revenue of the previous year to reach QR 49550 million QR. In addition, the actual revenue of the 2004-2005 was 89.2% above the budget estimates of the mentioned year. The rise in the actual revenue in 2004-2005 was an outcome of the increase in oil and gas prices, the increase in LNG shipments and an increase of investment revenue. Oil and gas revenue accounted 64.3% or QR 19759 million in the previous year. Meanwhile, investment revenue represented 28% or QR 13878 million compared with 26.2% or QR 8062 million one year earlier.

b- Public Expenditure:

The actual public expenditure in the fiscal year 2004/2005 increased by 30.5% above the previous year to reach to QR 35256 million. Thus, public budget did enjoy a surplus of QR 14294, million an increase of 286% above the QR 3699 million surplus of the year 2003-2004. Table (4) sheds more lights on the distribution of the public expenditure among the current and capital expenditure. It is noted that the current expenditure amounted QR 27516 million, while the development projects expenditure amounted QR 7740 million. In other way, 77.1% of the total expenditure was allocated for the current expenditure and 22.9% was allocated for the

Table (3) **Labor Force by Sector, Nationality & Sex** Millions of QR

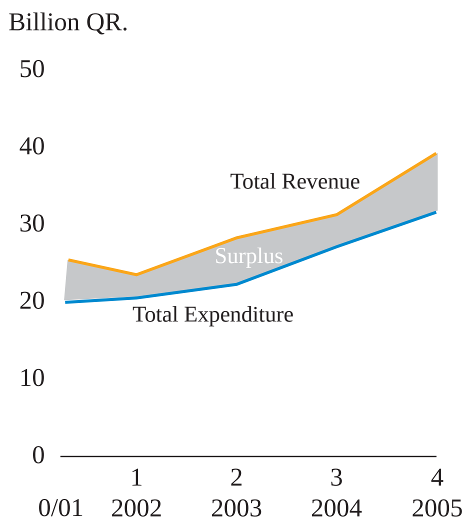
Items	Pleliminary Estimates			Actuals		
	02-2003	03-2004	04-2005	02-2003	03-2004	04-2005
Total Revenue	**18.208**	**21.586**	**26.192**	**28.514**	**30.716**	**49.550**
Oil & Gas Revenue	10.366	12.110	14.456	18.160	19.759	30.932
Investment Income	6.369	6.851	8.153	8.618	8.062	13.878
Other Revenue	1.473	2.625	3.583	1.737	2.895	4.740
Total Expenditure	**20.026**	**23.312**	**28.352**	**22.800**	**27.017**	**35.256**
Recurrent Expenditure	15.636	17.158	19.469	18.422	21.771	27.516
Capital Expenditure	5.692	6.056	6.273	5.997	6.294	7.535
First Chapter	1.700	1.450	1.200	2.236	1.942	1.571
Second Chapter	976	1.148	1.172	1.615	1.941	1.521
Third Chapter	7.268	8.504	10.824	8.574	11.594	16.889
Fourth Chapter	4.391	6.154	8.883	4.378	5.246	7.740
Surplus or Deficit (-)	**1.818**	**-1.726**	**-2.160**	**5.715**	**3.699**	**14.294**

Preliminary estimates.

Source: Ministry of Finance, Department of Public Finance.

development projects. The main chapters of the public expenditure are described as follows:

1. Wages & salaries: During the fiscal year 2004-2005, wages & salaries increased by 19.7 % above the previous year to reach QR 7535 million. The expenditure of this chapter constituted 21.3% of the total public expenditure in 2004/2005, compared with 23.3% in 2003-2004.



2. Supplies & services: Supplies & services expenditure declined in 2004/2005 by 21.6% below the previous year to reach QR 1521 million. It thus represented 4.3% of the total public expenditure.

3. Interest Payments: The interest payments of the domestic and external loans declined in the year 2004/2005 by 19.4% below the previous year

to reach QR 1571 million. Interest payments represented 4.5% of the public expenditure compared with 7.2% in the previous year.

4. Other current expenditure: The expenditure of this chapter jumped in the year 2004-2005 by 45.7% above the previous year to reach QR 16889 million. It represented a 47.9% of the total public expenditure, compared with 42.9% in the year 2003-2004.

5. Development Expenditure: The development expenditure hiked from QR 5246 million in 2003-2004 to QR 7740 million in 2004-2005, an increase of 47.5%.

Table no. (5) reveals that the ratio of the development expenditure to the total expenditure has increased to 22% in 2004/2005, while the development expenditure has declined to 78%.

Table (5) **Relative Importance of Expenditures** (%)

Items	02-2003	03-2004	04-2005
Total Expenditure	100.0	100.0	100.0
Recurrent Expenditure	80.8	80.6	78.0
Capital Expenditure	26.3	23.3	21.3
First Chapter (wages & Salarie)	9.8	7.2	4.5
Second Chapter (Current Expenditure)	7.1	7.2	4.3
Third Chapter (secondary capital expenditure)	37.6	42.9	47.9
Fourth Chapter (Major Projects)	19.2	19.4	22.0

2- State Budget Estimates for the year 2005/2006:

The ministry of finance imputation of the revenues for the fiscal year 2005/2006 was based on 27$ per barrel. Accordingly, the public revenue has been estimated at QR 38028 million, a decrease of 23.3% below the actual revenues of the previous year.

On the other side, the total expenditure for the year 2005-2006 have been raised by 7.2% above the actual expenditure of the year 2004-2005 to reach QR 37811 million. Consequently, the state budget estimates encompassed fiscal deficit estimated at QR 217 million, compared with an actual surplus of QR 14249 million in the year 2004/2005. The estimated current expenditure for the year 2005-2006 increased by 34% above the previous budget estimates, to reach to QR 26082 million.

Table (6) Preliminary Estimates for the State Budget 2003/2004-2004/2005

(%)

Items	2004/2005 Actual	2004/2005 Estimated	2005/2006 Estimated
Total Revenue	**49.550**	**26.192**	**38.028**
Oil and Gas Revenue	30.932	14.456	20.827
Investment Revenue	13.878	8.153	12.550
Other Revenue	4.740	3.583	4.651
Total Expenditure	**35.256**	**28.352**	**37.811**
Recurrent Expenditure	**27.516**	**19.469**	**26.082**
Capital Expenditure	7.535	6.273	6.315
First Chapter	1566	1.200	1.571
Second Chapter	1.521	1.172	1.004
Third Chapter	16.889	10.824	17.192
Fourth Chapter	7.740	8.883	11.729
Surplus or Deficit (-)	**14.294**	**-2.160**	**217**

Source: Ministry of finance: Department of Public Finance.

Most of the increase in public expenditure have occurred in the development expenditure, where it rose by 32% to reach QR 11729 million, compared with QR 8883 million in the 2004-2005 budget.

It is noted that land reclamation and acquisition allocations have increased by 32.3% in the 2005-2006 budget to reach QR 4846 million. Moreover, the allocation for the social services is QR 2125 million, for the roads QR1567 million and for the housing & public buildings QR 956 as shown in table (7).

Table (7) The Distribution of Capital Expenditure by Economic Sectors 2004/2005

Millions of QR

Items	Allocated Expenditure QR Millions	Relative Importance (%)
Health Care	1.171	10.0
Education and Youth Welfare	575	4.9
Housing and Public Buildings	956	8.2%
Roads	1.567	13.4
Communications	489	4.2
Social Services	2.125	18.1
reclamation and Land Acquisitions	4846	41.3
Total	**11.729**	**100.0**

In addition, the interest payments allocation marginally increased in the year 2005-2006 to reach QR 1571 million, compared with QR 1566 million for the previous year.

2 Chapter Two

Foreign Trade & Balance of Payments

Foreign Trade and Balance of Payments

Balance of Payments shows a surplus in overall balance reaches QR 14,294 million. This surplus comes as a consequence of a surplus in current account with QR 27,488 million.

Table (8) The Balance of Payments Millions of QR

Items	2000	2001	2002	2003	2004
Current Account	**16,655**	**15,133**	**13,919**	**20,943**	**27,488**
Trade Balance	31,538	27,247	26,673	32,846	48,321
Services	-4,646	-3,743	-3,966	-4,380	-4,468
Income	-5,094	-2,562	-3,266	-1,516	-8,160
Transfers	-5,143	-5,829	-5,522	-6,007	-8,205
Capital & Financial Account	**-69**	**-3,839**	**-6,233**	**-2,754**	**-4,861**
Capital Account	0	0	-1,357	-1,160	-2,004
Financial Account	-69	-3,839	-4,876	-1,594	-2,857
Surplus or Deficit	**9,797**	**9,555**	**6,511**	**15,399**	**14,294**

Subject of this, we are going to more details and analysis in 2004 Balance of Payments' items:

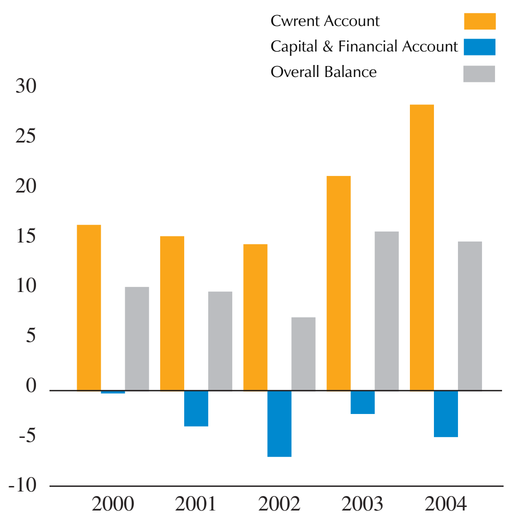
First: The Current Account:

The surplus in Current Account continues in year 2004 to reach QR 27,488 million, compare with QR 6,545 million in year 2003 with 31.3% changes.

The reasons behind the changes in Current Account items are as follows:

1. Trade Balance:

Trade Balance achieved a surplus in year 2004 by QR 48,321 million with an increase of QR 15,475 million and 47.1%, compared with 2003. This increase due to the increase in imports by QR 3,826 million and a percentage of 24.1% to reach QR 19,691 million in year 2004. In addition, exports increased by QR 19,301 million and 39.6% to reach QR 68,012 million.



a. Exports (FOB)

Oil exports continues to occupied the first rank of total exports at 45.6% and QR 31,046 million to achieve an increase of QR 6,597 million, and 27% compared with year 2003. Whereas, Natural Gas represents 34.5% of total exports to reach a value of QR 23,497 million with an increase of QR 8,050 million and 52.1%, compared with year 2003.

It is worth mentioning that Non-Oil exports shows a notable increase during 2004 to reach QR 4,494 million and a percentage of 55.3%.

Table (9) **Trade Balance** Millions of QR

Items	2000	2001	2002	2003	2004
Exports (FOB)	**42,202**	**39,571**	**39,960**	**48,711**	**68,012**
Oil	23,979	20,422	20,488	24,449	31,046
Natural Gas	14,060	14,921	12,756	15,447	23,497
Others	3,546	3,625	5,963	8,125	12,619
Re-exports	617	603	753	690	850
Imports (FOB)	**-10,664**	**-12,324**	**-13,287**	**-15,865**	**-19,691**
Trade Balance	**31,538**	**27,247**	**26,673**	**32,846**	**48,321**

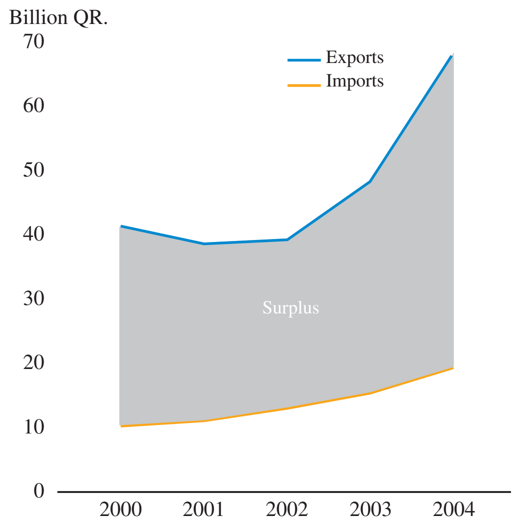
b. Imports (FOB)

Total imports increased in 2004 by QR 3,826 million or 24.1% to reach QR 19,691 million, compared with QR 15,865 million in 2003. The record level of imports came, as a result of large investment in all economic fields.

Imports (CIF) According to Economical Groups:

Gulf Council Countries (GCC):

Data indicates an increase in Imports (CIF) from GCC in year 2004 to reach QR 3,616 million, compared with 2,660 million in 2003. Trade balance with GCC was in deficit by QR 38 million. Imports from GCC in 2004 came second next to imports from European Union, and represented 18.4% of total imports.



Arab Countries:

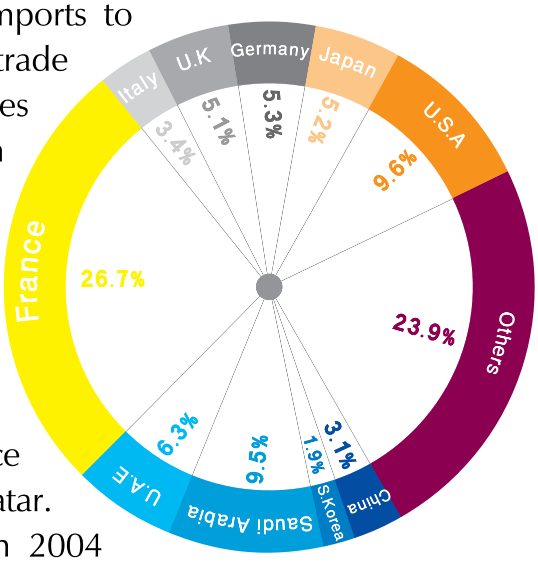
Imports from Non-Gulf Arab Countries represented 1.7% of the total Imports. It slightly increased in 2004 to reach QR 336 million, compared with QR 323 million in 2003. Trade balance was in surplus with Non-Gulf Arab Countries by QR 276 million in 2004.

European Union:

The European Union (EU) is considered as the main trade partner to Qatar in terms of imports. Imports from EU rose in 2004 by 45.5% to reach QR 9,032 million, compared with QR 6,208 million in 2003. Mostly, the increase in imports came as a result of Euro appreciation against US $. Trade balance with EU was in deficit in 2004 by QR 7,188 million.

Other European Countries:

Imports from Other European countries in 2004 occupied the fifth rank. It represented 2.4% of total Imports to reach QR 468 million, and the trade balance with Other European Countries was in deficit by QR 241 million in 2004.



Non-Arab Asian Countries:

Imports from Non-Arab Asian Countries came in third rank next to imports from EU and GCC in 2004, but with a huge surplus in trade balance of QR 50,609 million in favor of Qatar. Imports reached QR 3,615 million in 2004 with a decline by QR 1,506 million and 29.4% compared with 2003.

North American Countries:

Imports from North American Countries occupied the fourth rank. It reached QR 1,894 million in 2004, compared with QR 2,290 million in 2003. The trade balance with North American Countries recorded a deficit by QR 1,021 million in 2004.

Other American Countries:

Imports from Other American Countries occupied the sixth rank in terms of Qatar imports. It increased by 18.4% in 2004 to reach QR 432 million, compared with QR 365 million in 2003. The trade balance with Other American Countries was in deficit by QR 298 million in 2004.

Ocean Countries:

Imports from Ocean Countries decreased by QR 77 million in year 2004, compared with 2003 to reach QR 240 million. It occupied the eighth rank in 2004 in terms of Qatar imports, with a surplus of QR 592 million in 2004.

Non Arab African Countries:

Imports from Non-Arab African Countries came in the ninth and last rank. It reached QR 58 million in 2004, compared with QR 67 million in 2003 with a decline of 13.4%. The trade balance was in surplus by QR 5,630 million in 2004.

Table (10) Geographical Distribution of Trade Balance Millions of QR

Items	Imports	Exports	Re-exports	Trade Balance
GCC Countries	3,616	3,056	522	-38
Arab Countries	336	555	57	276
European Union Countries	9,032	1,697	147	-7,188
Other European Countries	468	181	46	-241
Non-Arab Asian Countries	3,615	54,171	53	50,609
North American Countries	1,894	855	18	-1,021
Other American Countries	432	132	2	-298
Ocean Countries	240	829	3	592
Non-Arab African Countries	58	5,686	2	5,630
Total	**19,691**	**67,162**	**850**	**48,321**

2. Services Account:

The deficit in Services Account slightly increased in 2004 to reach QR 4,468 million, compared with QR 4,380 million in 2003. This increase came, as a result of increase in both travel and transportation items.

Table (11) Services Account Millions of QR

Items	2000	2001	2002	2003	2004
Services (Credit)	**1,323**	**2,495**	**2,572**	**4,141**	**6,110**
Travel	465	991	1,037	1,342	1,812
Transportation	749	1,357	1,129	2,285	4,112
Other Services	109	147	406	514	186
Services (Debit)	**-5,969**	**-6,238**	**-6,538**	**-8,521**	**-10,578**
Travel	-1,117	-1,331	-1,538	-1,713	-2,515
Transportation	-1,067	-1,231	-1,329	-1,606	-1,969
Other Services	-3,785	-3,676	-3,671	-5,202	-6,094
Services Account Balance	**-4,646**	**-3,743**	**-3,966**	**-4,380**	**-4,468**

3. Income Account:

Deficit in Income Account increased by QR 6,644 million in 2004, compared with 2003 to reach QR 8,160 million.

Table (12) **Income Account** Millions of QR

Items	2000	2001	2002	2003	2004
Income (Credit)	779	3,231	2,582	4,927	4,633
Income (Debit)	-5,873	-5,793	-5,848	-6,443	-12,793
Income Account Balance	**-5,094**	**-2,562**	**-3,266**	**-1,516**	**-8,160**

4. Current Transfers:

The deficit in Current Transfers account increased in 2004 to reach QR 8,205 million, due to the increase of workers' remittances by QR 2,118 million and 36.5% compared with 2003.

Table (13) **Current Transfers Account** Millions of QR

Items	2000	2001	2002	2003	2004
Workers' remittances	-4,932	-5,485	-5,398	-5,802	-7,920
Other Transfers (net)	-211	-344	-124	-205	-285
Current Transfers Balance	**-5,143**	**-5,829**	**-5,522**	**-6,007**	**-8,205**

Second: The Capital and Financial Account:

The deficit in the Capital and Financial account reached QR 4,861 million in 2004, compared with QR 2,754 million in 2003. This deficit is mainly due to the increase in local banks investment outside Qatar by QR 1,416 million.

Table (14) **Capital and Financial Account** Millions of QR

Items	2000	2001	2002	2003	2004
Capital Account	0	0	-1,357	-1,160	-2,004
Financial Account (net)	-69	-3,839	-4,876	-1,594	-2,857
Capital & Financial Account Balance	**-69**	**-3,839**	**-6,233**	**-2,754**	**-4,861**

Third: The Overall Balance of Payments (OBOP):

Due to changes occurred in both current account, and capital and financial account, a surplus realized in Overall Balance of Payments by QR 14,294 million in 2004 with a slight decrease by 7.2% compared with 2003.

Table (15) **The Balance of Payments** Millions of QR

Items	2000	2001	2002	2003	2004
Current Account	**16,655**	**15,113**	**13,919**	**20,943**	**27,488**
Goods	**31,538**	**27,247**	**26,673**	**32,846**	**48,321**
Exports (F.O.B.)	42,202	39,571	39,960	48,711	68,012
Crude Petroleum	23,979	20,422	20,488	24,449	31,046
Natural Gas Liquid	14,060	14,921	12,756	15,447	23,497
Others	3,546	3,625	5,963	8,125	12,619
Re-Export	617	603	753	690	850
Imports (F.O.B.)	-10,664	-12,324	-13,287	-15,865	-19,691
Services	**-4,646**	**-3743**	**-3,966**	**-4,380**	**-4,468**
Services (Credit)	1,323	2,495	2,572	4,141	6,110
Travel	465	991	1,037	1,342	1,812
Transportation	749	1,357	1,129	2,285	4,112
Others	109	147	406	514	186
Services (Debit)	-5,969	-6,238	-6,538	-8,521	-10,578
Travel	-1,117	-1,331	-1,539	-1,713	-2,515
Transportation	-1,067	-1,231	-1,329	-1,606	-1,969
Others	-3,785	-3,676	-3,671	-5,202	-6,094
Income	**-5,094**	**-2,562**	**-3,266**	**-1516**	**-8,160**
Income (Credit)	779	3,231	2,582	4,927	4,633
Income (Debit)	-5,873	-5,793	-5,848	-6,443	-12,793
Transfers	**-5,143**	**-5,829**	**-5,522**	**-6,007**	**-8,205**
Workers' Remittances	-4,932	-5,485	-5,398	-5,802	-7,920
Others (Net)	-211	-344	-124	-205	-285
Capital & Financial Account	**-69**	**-3,839**	**-6,233**	**-2,754**	**-4,861**
Capital Account	0	0	-1,357	-1,160	-2,004
Financial Account	-69	-3,839	-4,876	-1,594	-2,857
Net Errors & Omissions	**-6,789**	**-1,719**	**-1,175**	**-2,790**	**-8,333**
Overall Balance	**9,797**	**9,555**	**6,511**	**15,399**	**14,294**
Change in Reserves (Increase-)	-9,797	-9,555	-6,511	-15,399	-14,294

Table (16) **Geographical Distribution of Imports**

Millions of QR

Items	2000	2001	2002	2003	2004
Arab Countries	**1,976.8**	**1,868.0**	**2,590.1**	**2,983.7**	**4,386.9**
U.A.E	819.9	711.0	1,039.4	1,187.5	1,381.3
Saudi Arabia	666.9	727.2	917.6	1,060.0	2,079.0
Bahrain	145.4	80.1	122.5	235.0	289.2
Jordan	43.9	55.3	72.2	54.4	53.6
Lebanon	28.0	34.2	36.2	48.8	85.7
Kuwait	61.9	56.2	105.1	74.8	103.0
Syria	90.9	79.0	12.3	92.8	122.0
Egypt	41.5	30.8	56.9	105.6	73.2
Oman	65.3	70.9	91.9	103.6	161.2
Others	13.1	23.3	28.0	21.2	38.7
Asian Countries	**3,593.3**	**3,663.0**	**4,173.0**	**5.120.9**	**4,012.8**
Japan	1304.2	1298.0	1,552.6	1,866.4	1,141.4
India	334.9	316.6	440.3	560.9	513.7
South Korea	633.9	598.7	528.2	883.1	408.9
China	353.9	389.4	467.3	604.9	668.3
Hong Kong	66.7	65.6	133.7	54.5	39.3
Taiwan	117.4	113.4	113.4	108.8	87.2
Malaysia	150.0	183.9	215.2	215.3	142.5
Iran	83.4	89.8	68.5	65.6	49.8
Indonesia	112.8	132.7	156.3	160.1	157.9
Pakistan	119.7	116.3	104.5	116.4	95.2
Thailand	126.7	118.1	127.0	151.7	136.5
Singapore	50.3	96.8	122.2	155.2	403.4
Turkey	65.4	66.2	90.7	106.6	117.0
Philippines	33.7	39.3	27.6	28.9	21.1
Others	40.3	36.2	25.5	42.5	30.6
European Countries	**4,491.0**	**5,478.8**	**5,422.2**	**6,681.7**	**10,545.7**
U.K.	919.3	1094.6	1,123.7	1,430.4	1,119.3
Germany	967.1	1248.7	1,032.3	1,719.7	1,148.9
Italy	795.7	1333.8	1,333.0	1,326.4	740.3
France	648.3	606.3	614.2	592.1	5,846.1
Holland	284.9	315.8	338.2	339.4	275.6
Switzerland	214.5	200.3	189.2	225.0	391.3
Belgium	113.1	133.9	170.7	192.9	216.8
Sweden	135.3	80.0	84.0	127.8	105.0
Spain	151.7	146.9	184.5	220.4	180.8
Denmark	47.3	62.2	65.7	72.4	47.5
Austria	37.2	51.2	58.0	75.3	85.4
Ireland	56.8	62.1	60.3	74.3	75.2
Greece	33.1	27.1	20.9	15.0	9.6
Norway	16.7	18.3	20.2	31.3	31.6
Romania	7.9	6.2	13.0	27.2	18.0
Others	62.1	91.4	114.3	212.1	254.3
American Countries	**1,507.0**	**2,216.0**	**2,281.1**	**2,655.5**	**2,580.6**
U.S.A.	1220	1876.7	1,922.9	2,170.9	2,102.0
Brazil	113	128.4	144.6	164.8	208.7
Canada	103	83.6	115.7	119.6	48.9
Argentina	22	37.3	35.5	47.7	35.6
Mexico	37	64.4	43.7	48.5	20.4
Others	12	25.6	18.7	104.0	165.0
Oceanic Countries	**237.7**	**284.7**	**234.0**	**317.1**	**265.8**
Australia	224	266.6	216.4	293.9	250.3
Newzealand	13.7	18.0	17.6	23.2	15.5
African Countries	**30.1**	**46.1**	**48.3**	**67.3**	**64.4**
Not Specified	**2.1**	**121.8**	**0.7**	**0.1**	**0.0**
Total	**11,838.0**	**13,678.3**	**14,749.4**	**17,826.3**	**21,856.2**

Table (17) Geographical Distribution of Exports

Millions of QR

Items	2001	2002	2003	2004
Arab Countries	**1,391.0**	**3,200.1**	**2,162.7**	**3,611.1**
U.A.E	702.5	1,353.9	1,124.6	1,974.0
Saudi Arabia	416.5	575.9	599.8	706.2
Bahrain	36.8	69.4	96.6	110.5
Jordan	43.9	39.0	18.6	82.7
Lebanon	19.9	36.2	10.7	52.7
Kuwait	45.9	66.3	59.4	183.1
Syria	27.4	13.2	97.4	63.1
Egypt	38.8	953.0	84.5	62.2
Oman	17.7	26.7	26.1	28.6
Yemen	27.2	27.4	7.3	42.8
Others	14.4	39.1	37.7	305.2
Asian Countries	**34,655.3**	**31,847.4**	**40,250.6**	**54,171.1**
Japan	20,174.8	18,628.1	22,412.5	28,312.8
India	559.7	364.8	535.5	3,655.0
South Korea	7,803.5	6,320.6	9,018.5	10,676.8
China	1,190.4	421.4	937.9	751.3
Taiwan	84.3	99.4	316.7	921.8
Malaysia	149.4	15.5	16.5	52.0
Iran	14.4	86.8	28.5	217.5
Indonesia	71.5	42.5	10.7	86.7
Pakistan	43.4	54.5	57.1	422.8
Thailand	936.0	1,365.8	1,451.8	1,153.3
Singapore	2,677.9	3,696.7	4,628.2	6,167.1
Turkey	17.5	20.1	19.4	19.7
Philippines	698.4	461.5	577.1	782.5
Others	195.6	249.9	240.0	951.8
European Countries	**300.8**	**660.5**	**940.4**	**1,878.6**
U.K.	17.7	3.0	101.2	199.4
Germany	0.6	0.9	1.7	0.3
Italy	0.0	373.5	34.7	73.7
France	29.6	0.0	25.6	19.0
Holland	39.5	186.1	160.2	33.9
Belgium	9.4	9.4	16.8	7.5
Spain	203.9	80.4	546.7	1,257.8
Greece	0.0	5.1	12.7	66.0
Others	0.1	1.4	0.7	220.5
American Countries	**1,437.9**	**1,014.6**	**787.9**	**986.5**
U.S.A.	1,378.9	1,009.6	764.7	854.6
Canada	25.5	1.1	1.5	124.4
Chile	7.5	2.0	2.3	0.8
Peru	3.1	1.3	2.1	6.1
Others	22.9	0.6	2.5	0.6
Oceanic Countries	**787.7**	**363.4**	**383.5**	**828.7**
Australia	623.1	198.4	143.2	579.1
Newzealand	164.6	165.2	240.3	249.6
African Countries	**364.9**	**232.4**	**312.1**	**5,686.3**
Not Specified	**31.0**	**1,888.5**	**3,184.1**	**0.0**
Total	**38,968.6**	**39,206.9**	**48,021.3**	**67,162.3**

3

Chapter Three

Monetary Policy

Monetary Policy

Introduction:

Established in 1993, the Qatar Central Bank (QCB) is the monetary authority in Qatar responsible for maintaining monetary and banking stability. QCB has inherited the Qatari Monetary Agency's monetary strategy of targeting the exchange rate. The inherited nominal anchor is a fixed parity between the Qatari riyal (QR) and the United States dollar (USD) at the rate of QR 3.64 per USD. The QR target peg has been highly credible. Equally, QCB monetary policy has had to be subordinated to its policy of exchange rate. Main responsibilities of QCB include:

1. To maintain currency stability, within the framework of the linked exchange rate regime through monetary policy operations, sound management of the QCB foreign exchange fund, and other means deemed requisite.
2. To promote the safety and stability of the banking system via bank supervision and the regulation of the banking business.
3. To enhance efficiency, integrity, development, and stability of the financial system by developing and enacting a sound payment system ordinance.

Consequently, QCB utilizes alternative monetary instruments at its disposal to synchronize changes in the QR short-term interest rates with changes in the rates on the US dollar and other major currencies in global financial markets. Meanwhile, QCB makes great effort to reassure financial stability through prudential supervision over commercial banks and other financial institutions. Within this framework, QCB appropriately endeavors to strengthen monetary and price level stability.

Chapter Objectives:

This Chapter is about the QCB monetary and exchange rate policy, and the monetary developments in Qatar across 2004. The objective of the chapter is seven fold:

(i) Identify QCB monetary strategy, characterize the framework for QCB monetary policy and outline the QCB approach to the management of the QR exchange rate.

(ii) Define QCB policy-interest-rates, describe the QCB interest rate framework, and identify QCB approach to the management of interest rates.

(iii) Identify the mechanism of stabilizing the QR exchange rate, and denote the key role played by QCB instruments.

(iv) Conduct a thorough analysis of key monetary developments in Qatar across 2004.

(v) Introduce a set of QCB selected monetary indicators for the Qatari economy.

(vi) Identify the major sources of domestic inflation and present a brief analysis of the evolution of recent inflationary pressures in the Qatari economy.

(vii) Follow up the most recent developments in QCB supervision of and oversight over the banking system.

Chapter Structure:

The Chapter is structured in seven sections. Following a preview of the chapter in section one, the above seven-branchlet tasks are taken over orderly in six consecutive sections starting section two.

Section two recaps QCB monetary strategy, digresses on managing the QR exchange rate, and deals with QCB policy of interest rates within the formal framework for fixed-exchange-rate policy. QMR mechanism is outlined and the role it plays within the QCB monetary-policy and payment-system functions is highlighted. The section follows up developments in policy interest rates.

Section three recaps the formal framework of QCB exchange rate policy; recapitulates the mechanism of stabilizing the exchange rate; and discuses the QCB approach to defend the target peg. The key role played by the QMR mechanism in neutralizing the monetary effects of QCB intervention operations in the local USD exchange market is highlighted. Finally, the recent developments in the QR exchange rate against non-USD major currencies are summarized.

Section four analyzes developments in the high-powered money and the components of domestic liquidity M2 across 2004. A brief follow-up of the external developments impacting on the domestic monetary conditions is followed by a preview of the recent developments in domestic liquidity. Next, we elaborate on the developments in the different uses of the monetary base and present a thorough analysis of the growth in its sources. Components of and sources of changes in domestic liquidity across 2004 are carefully put to the question and thoroughly examined. Economic implications of the accelerated growth in domestic liquidity are briefly explored.

Section five deals with domestic prices and inflation. It is argued that the persistent depreciation of the US dollar presented major source of imported inflation. Meanwhile, higher international oil prices and capital inflows resulted in growing expansionary fiscal and monetary stance. Espoused to the booming activities in assets markets, particularly the real estates sector, present the domestic source of inflation in the economy.

Section six discusses and computes selected monetary indicators. Particular attention is paid to the phenomena of dollarization and dollar intermediation as well as to the monetary multipliers in the Qatari economy. The impact, on the estimated money multipliers, of allocating deposits by government and government enterprises to commercial banks rather than to the central bank is discussed in brief.

Section seven is concerned with the role of QCB in the supervision and oversight of the banking system. The section presents a short list of major QCB instructions to commercial banks during 2004. Details on functioning of commercial banks, financial soundness of the banking sector, and indicators of bank performance are given in Chapter four of this Report.

Section I

Chapter Summary

Strong global growth, though moderating through the second half of the year, by strengthening global demand for energy, helped fuel Qatar economic growth. Oil prices, production, and exports of oil and gas were boosted. Government foreign exchange revenues and, thus domestic public expenditures increased. Private capital inflows persisted due to –among other things- fading investments security for GCC capitals in the USA and other Western countries. Market interest rates stayed moderately low. Although inflation increased significantly in 2004 versus its low level in 2003, it remained within the one digit rate.

Throughout 2004, QCB had continued its constant reviews of the developments in levels and trends of domestic liquidity; domestic interest rates on QR and on foreign currencies in the local market; and the interest rates on major currencies, particularly the USD, in global financial centers. In keeping changes in QR interest rates synchronized with changes in rates on the US dollar and the rates on other major currencies during 2004, QCB sustained its policy of shadowing the USA Federal Reserve System's targeted federal funds rate. QCB utilized the QMR and Repos instruments to bring about necessary changes in the QR rates throughout the second half of 2004. The QCB Lending Rate was increased beginning July 2004 to 1.58% and continued rising to reach 2.6% by the year-end. The Repo Rate was raised five times starting July 2004 (from 1.90% to 2.15%) to reach 3.15% by the year-end.

In its effort to defend the QR peg, QCB operates with both foreign-exchange market interventions and changing policy-interest-rates. When the local foreign exchange market is stable, QCB changes its policy interest rates in step with changes in US Federal Reserves' targeted federal funds rate. QCB ended net purchaser of US$379.0 million throughout 2004. Ceteris paribus, QCB sales (purchase) of US dollars eventually impact negatively (positively) on the money supply, domestic liquidity, and domestic credit. QMR mechanism has been relatively effective in neutralizing the monetary effects of the QCB exchange market interventions.

Broad money had expanded 20.53%, an unprecedented growth in M2 since 1984 whence it had grown by 22%. Nevertheless, it had been broadly consistent with the increasing requirements of the immensely expanding economy, moderate inflation environment, and the stability of the QR exchange rate. The growth in domestic liquidity had been closely aligned with the growth of 20% in the overall GDP. Yet, it had been far above the growth of 14.8% in the non-oil-non-gas GDP across 2004.

The accelerating growth in domestic liquidity impacted vigorously on assets markets, due to the narrowness of the real production base. Asset markets were buoyant during the year. The steadily accelerating expansion in real estates trading activities continued for the third consecutive year. Expansion in construction activities had persisted. Although the equity market had been volatile over the year, the market indexes had risen dramatically.

The Qatari Riyal sustained stability at the fixed parity with the US dollar throughout the year, despite capital inflows, growing public spending, and the depreciation of the US dollar. Yet, the decline in the exchange value of the US dollar had contributed, through the linked exchange rate arrangement, to a further decline in the effective exchange value of the Qatari Riyal, therefore fueled imported inflation.

The following is a compact summary of the monetary developments across 2004.

I. Analyses of the recent growth in monetary base and its sources reveal that:

1. The high-powered money grew by 24% or QR 1,056.00 million across 2004. Changes in the source base were attributable to the rise of QR 1,326.60 in the monetary sources and a decline of QR 270.36 million in non-monetary sources of the base. The currency issued grew by 20.11% vis-à-vis a growth of 14.7% end-2003. The growth in the currency issued had accelerated faster than, and contributed most significantly to, the growth in the money base.
2. Taken at its face value of QR 713.0 million, the banks current-deposits account at QCB appeared to contribute immensely to the growth in the monetary base, comprising 34.12% of the increase in the base. However, the year-end balance is not reflective of the conditions

prevailing throughout the year. Tracking the end-of-month balance show that it reached its minimum end-July, a local maximum end-September, and a global maximum end-December. The weighted arithmetic average for the eleven months Jan.-Nov. is QR 278.19 million. Therefore, indicate high irregularity of end-Dec. balance. Such disproportionate increase by end-December is attributable to several factors.

3. QCB net foreign assets grew by 17.11%. Meanwhile, QCB net domestic assets had contracted by 12.23%. The growth in QCB net foreign assets reflected foreign currency inflows, asset revaluation changes, and augmentation of QCB foreign assets portfolio due to net QCB income.

4. A subset of its foreign assets, QCB foreign currency reserve assets were estimated at QR 11,860.4 million by end-2004 versus 10,169.2 million end-2003, a growth of 16.6%. Such growth owes mostly to QCB interventions in the local USD exchange market as a net purchaser of $379.0 million during 2004. This had been due to net capital inflow and domestic public spending (out of oil and gas US dollar proceeds) in excess of the US dollar value of private sector commodity imports plus private income transfers.

5. The monetary policy sources of the monetary base comprised 105.29% of the change in the source base by end-December 2004. Such rise is decomposed into a positive contribution of changes in the foreign reserves source of 130.56%, a positive contribution of repurchase agreements of 21.30%, a negative contribution of QMR mechanism of 45.98%, and a negative contribution of net interest payments on QMR and Repo transactions of 0.59%.

6. The base cover rose from 148.1% end-2002 to 237.86% end-2003 then declined to 224.18% by end-2004. The end-2003 peak owes to the augmentation of the QCB foreign exchange reserves by the amount of one billion US dollars paid by the government in support of the QR exchange rate fund. Though the base cover 5.75% end-2004, it remained firmly high.

7. The currency cover increased from 241.19% by end-2002 to 402.18% by end-2003, then declined to 391.4% by end-2004. The augmentation of QCB foreign exchange reserves by one billion US

dollar in 2003 explains the spectacular increase in the currency cover by the year-end. Though the currency cover declined by 2.68% end-2004, it remained well above the benchmark of 100% determined by QCB Statute.

II- Analyses of the recent developments in the broad money and its components lead to the following conclusions:

1. The growth in domestic liquidity was accelerated from 17.00% across 2003 to 20.50% across 2004, revealing that the demand for broad money remained high during the year corresponding to the robust economic expansion.

2. The share of the narrow money M1 in domestic liquidity grew across the last two years from 25.5% to 30.3% then to 32.5% end-2002, end-2003, and end-2004, respectively. Such broad evidence of a structural change in the distribution of domestic liquidity is reinforced by the growth in the shares of demand deposits in the total deposits base as well as in broad money under a stable share of currency circulated in M2.

3. Growing slower than M1 but equivalent to M2 across 2003-2004, the relative share of currency in circulation in M1 declined from 23.65% end-2002 to 19.05% end-2003 then to 17.78% end-2004. Meanwhile, its relative share in M2 declined from 6.04% end-2002 to stabilize at 5.77% and 5.79% by end-2003 and end-2004, respectively.

4. Growing faster than M1 and M2, the relative share of private QR demand deposits in M1 rose from 76.35% end-2002 to 80.95% end-2003 then to 82.20% end-2004. Meanwhile, its relative share in M2 rose from 19.50% to 24.5% then to 26.7% end-2002, end-2003, and end-2004, respectively. On the other hand, the relative share of private QR demand deposits in the total private deposits base increased from 20.76% end-2002 to 26.03% end-2003 then to 28.40% end-2004.

5. Such developments seem to suggest a tendency on the behalf of the non-bank public to swing from the illiquid towards liquid components of domestic liquidity. Hence, revealing the rise in the liquidity preference ratio from 25.54% end-2002 to 30.30% end-2003 then to 32.54% end-2004. On other hand, such rising share of transactions

deposits is a reflection of the increasing volume of total transactions in the economy, which is perfectly in line with the ongoing economic expansion.

6. However, the move away from nontransferable deposits seems to be waning as evidenced by the adjusting structure of changes in domestic liquidity across 2003-2004. While the increase in M1 constituted 58.26% of the increase in broad money across 2003, it contributed only 43.46% across 2004. That is, the input of M1 to the growth in domestic liquidity slowed down by 14.8 percentage points or 25.40% while the contribution of quasi money increased by 35.46%. Analogous pattern is depicted for the private deposits base. The increase in demand deposits constituted 56.44% of the increase in the deposits base over 2003. However, the increase in demand deposits contributed 39.95% only of the increase in the private deposits base over 2004. The input of demand deposits to the growth in the deposits base slowed down by 29.22% while that of nontransactions deposits increased by 37.86%.

7. Within the narrow money measure, the private firms' share in transaction deposits picked-up to 36.58% across 2004 after falling from 35.3% end-2002 to 32.8% end-2003. Such pick up; indorsed by growing share of private businesses in the total deposits base, seems to entail growing utilization of banks financial intermediary services on the behalf of private firms. Hence, is consistent with the accelerated growth of the non-oil-non-gas GDP.

8. Within quasi money aggregate, only the shares of QR savings deposits and foreign-currency-time deposits have been increasing across 2002-2004. Meanwhile, the share of foreign-currency-time deposits had been growing faster than that of QR saving deposits. Such episodes seem to point out a tendency, on the behalf of the non-bank public, to move toward the more illiquid component of quasi money. Hence, seem to suggest that a phenomenon of assets rather than one of currency substitution had been moderately growing over the last two years, albeit in a converging manner.

III- Examination of recent developments in the sources of broad money suggests the following:

1. The growth in the net foreign assets' position of the banking system, in commercial banks credit extended to the private sector, and in commercial banks' short-term investments in domestic assets, provided injections into the domestic liquidity throughout 2004, having a total impact of QR 14,967.66 million. On the other hand, reductions in commercial banks' net direct credit extended to the government, in long-run banks' domestic investment, in net QCB claims on government, and the increase in 'other items net' with the banking system were the leakage outlets off domestic liquidity, having a total impact of QR 7,324.65 million. Thus, the net increase in the sources of domestic liquidity amounted to QR 7,643.10 million by end-2004.

2. Existing evidence reveal a declining marginal share and rising average share of the net foreign assets with the banking system in domestic liquidity; thus disclose opposite signs for the respective shares of the system's net domestic assets. This is a remarkable departure from the pattern of the structure of sources of domestic liquidity since 1999.

3. The rise in banks' credit extended to the private sector was largely absorbed by the household sector (35.9%), the real estates sector (30.1%), and the semi-government enterprises (11%). Such pattern conforms to the sustained boom in the real estates sector and developments in the Doha Stock Exchange during 2004.

4. While government deposits declined considerably across 2004 the government enterprises deposits rose significantly. A radical reduction of 35.70% (or QR 1,768.80 million) in the government foreign currency deposits was overcompensated by the increase of QR 2,696.0 million in foreign currency deposit by the government enterprises. Such pattern of change is consistent with the growing government injection of a portion of its foreign currency proceeds into the domestic income stream via its domestic expenditures. This conjecture is supported by apparent shift from government time and savings QR deposits to demand deposits across 2004, after a strong build-up of the former across 2003.

IV- Careful examination of the evolving inflationary pressures reveals:

1. that overall consumer prices rose notably more in 2004 than they did in 2003; where the sharp increases in housing rent continued to account for most of the step-up.

2. The increase in the CPI during 2004 was largest in the early months of the year. The average quarterly CPI inflation decelerated across the second and the third quarters and picked up across the fourth quarter.

3. The evolution of the CPI inflation was most influenced by the growth in the CPI category "Rent, Fuel, and Energy," (CPIR). The growth in the average non-rent consumer price index (NRCPI), which excludes CPIR, was fairly moderate across 2004. It is concluded that sharp rises in CPI inflation owed to the booming real estates sector and irregular supply conditions Prevailed in the residential housing market over the last two years.

V- In other developments across 2004:

1. The evolution of the ratio of private sector foreign currency deposits to total private sector deposits seems to reveal a feebly widening and converging phenomenon of monetary dollarization. The ratio rose from 18.8% end-2002 to 22.8% end-2003, then to 22.8% by end-2004. These ratio magnitudes seem fairly moderate given openness of capital and financial accounts of the balance of payments. Thus, the Qatari economy does not seem dollarization-prone.

2. While the narrow money multiplier grew across 2002-2004, the broad money multiplier declined. The growth in the former reflects a reduction in the currency ratio that had offset the effect of an increase in the excess reserves ratio. The decline in the later reflected a falling ratio of nontransactions deposits (reinforced by a rise in the excess reserves ratio) that over compensated the effect of falling currency ratio.

3. The ratio of broad money to the nominal GDP had been fairly stable across 2002-2004. Yet, the ratio of M2 to the nominal non-oil-non-gas GDP grew at a compound rate of 5.64% hence signaled possible inflationary pressures.

Section II
QCB Monetary Policy

As indicated before, QCB has inherited the monetary strategy of exchange rate targeting with the fixed parity between QR and USD at QR 3.64 per dollar as the nominal anchor. Sustaining credibility of the peg is imperative for anchoring inflationary expectations. Therefore, maintaining equilibrium in the domestic USD exchange market has been the defacto primary objective of monetary policy drawn and implemented by QCB. Aspects other than the exchange rate are of ensuing priorities in relation to QCB monetary policy. Equally, QCB monetary policy has been subordinated to its policy of exchange rate. Thus, QCB monetary policy is formulated and conducted in such a way to administer short-term money market interest rates with a view to sustaining the QR-USD fixed parity.

II.1 A Digression on QCB Management of the QR Rate:

In its management of the QR rate, QCB operates with both foreign-exchange market interventions and changing policy-interest-rates. In the short-term QCB will only use interventions in defending the peg. Isolated exchange market interventions take place primarily to alleviate temporary pressures in the exchange market. In the long run, QCB keeps the QR stable vis-à-vis the USD by adjusting QCB monetary policy interest rates. Whereas the foreign exchange market is stable QCB will change policy rates in step with changes in USA Federal Reserves' targeted federal funds rate. The spread between QCB monetary-policy rate and the targeted federal funds rate is a key to QCB monetary policy and the QR rate.

Sustained high credibility of the QR peg is the underpinning for constant expectations in the domestic US dollar exchange market. Market participants take US dollar positions in expectations of a highly stable parity thereby contribute to stabilizing the QR rate. Such market confidence is accentuated by a high foreign currency cover fluctuating around 400% in recent years.

II.2 QCB Interest Rates Framework:

The current QCB interest rates framework embraces three policy rates: QCB Lending Rate (QCBLR), QCB Deposits Rate (QCBDR), and QCB Repurchase Agreements Rate (QCBRR). Both QCB Lending and Deposits rates are overnight rates. Repurchase agreements are of two weeks to one-month maturity. The QCBLR is the key rate QCB uses as its indicator in conveying signals to the market revealing adjustments to its monetary policy stance. Changes in this rate manifest shifts in the orientation of QCB monetary policy where reductions signal easing and raises indicate tightening of the QCB policy stance. The liquidity concept key to QCB monetary policy is the commercial banks' current-deposits account at QCB since these funds can be immediately used as means of payment at the initiatives of the banks. The aggregate current-deposits account is referred to as "primary liquidity" or "QR liquidity."

Both QCBLR and QCBDR relate to a QCB double-featured monetary instrument labeled 'The Qatar Money Market Rates (QMR).' QMR encompasses two standing facilities: Lending (refinance) facility and deposits facility. Both facilities operate within a mechanism premeditated to facilitate steering the overnight interbank rates. All commercial banks may request access to either or both facilities. QMR facilities are extendable to next day-rollover where transactions are electronically executed.

II.2.1 QMR Mechanism:

Under QMR mechanism, QCB extends overnight funds (of one day maturity) to and accepts overnight deposits (of one day maturity) from commercial banks. Both QMR credit and deposits are subject to overall and individual bank-by-bank formal ceilings set by QCB. The initial interest rates on both types of transactions are set by QCB at the start of the monetary-policy-day. Henceforth, the path of each effective rate is influenced by the evolving conditions of the QR liquidity in the banking system over the course of the day. Hence, QMR facilities under QMR mechanism are characterized by the following:

1. They are used at the initiative of individual banks.
2. They carry preannounced initial interest rates.
3. The interest rates they carry are flexibly adjustable over the course of the monetary-policy day.

QMR mechanism is utilized to navigate overnight interbank rates, hence, other short-term money market rates. The initial rate on QMR lending facility (QCBLR) sets the lower bound for the QMR effective lending rate which -in turn- sets the upper bound for the average overnight interbank market interest rate (AOIR) over the course of the monetary-policy day. Meanwhile, the initial rate on QMR deposits facility (QCBDR) sets the upper bound for the QMR effective deposits rate which -in turn- sets the lower bound for the AOIR in the course of the monetary-policy day.

Within framework of QMR mechanism, the QMR lending facility is intended to satisfy interday primary liquidity needs in the system within the formal overall and individual ceilings. If overall ceiling were binding or a bank hits it's own borrowing ceiling, it is forced to swap to the money market for extra borrowings. QMR deposits facility aims to absorb interday excess QR liquidity in the banking system subject to the formal overall and individual bank-by-bank ceilings. When the overall ceiling is binding or an individual bank hits its deposits ceiling, it is forced to switch to interbank market for lending extra funds.

While both QMR facilities are operated within framework of QMR mechanism only during working hours of the business day, both facilities are involuntary extended beyond regular working hours. The purpose of the extended facilities is to ensure elastic supply of primary liquidity so that there always exist sufficient liquidity in the banking system at the close of the monetary-policy-day. By the day-end, a bank's debit position on its settlement account is automatically considered as request for resources to QMR lending facility; A bank's credit position on its settlement account at the end of the day is automatically considered an offer for placement to QMR deposits facility. Banks can violate a relevant QMR ceiling by the close of the monetary policy day subject to penalty interest rates determined by QCB.

Extended QMR lending facility forces banks, which are unable to source interbank liquidity to meet their settlement obligations by the close of a monetary policy day, to finance end of day liquidity shortages via involuntarily borrowing overnight funds from QCB. Equally, extended deposits facility enables banks that meet their settlement obligations by the close of the monetary policy day, to involuntarily lend end-of-day excess liquidity to QCB overnight. Complementing QCB overdraft facility in the course of a monetary policy day, extended QMR facilities help avoid dislocations in the payment system that can arise from liquidity pressures at the end of the monetary-policy-day.

II.2.2 Repurchase Agreements (Repo):

Repurchase transactions operations comprise purchases of assets by the central bank under a contract providing for their resale at specified price on a given future date (limited to two weeks or one month along with circular no. 49 of 2002), and are used to supply reserves. Repos are conducted in domestic government securities, that is, loans backed by domestic assets.

Strictly speaking, repurchase transactions are classified as indirect money market instrument as they are usually initiated by central banks, operate through market mechanisms, and serve to manage primary liquidity in the banking system. Yet, although QCB sets the rate and duration for repurchase agreements (a characteristic of a money market instruments), the QCBRR is known in advance and the size and timing of the repurchase transactions are rather initiated by commercial banks. Repurchase agreements provide commercial banks with means for longer-maturity source of funds (i.e., than a single day) at higher interest rate. As such, QCBRR is a marginal rate that helps guide the longer-term interbank money market rates.

II.3 QCB Interest Rate Management:

Three main doctrines of the QCB interest rates framework enable it to control the overnight money market rates in practice:

1. The right (of the commercial banks) and the ability (of QCB) to determine terms for how banks can invest surpluses or finance deficits in primary liquidity during the day.

2. QCB ability to determine terms for how commercial banks can invest surpluses or finance deficits in their settlement payments at the end of the day.
3. The possibility to determine QR liquidity requirements of the banking system.

QCB conducts monetary policy by setting monetary-policy interest rates, i.e., the QCBLR, the QCBDR, and the QCBRR. QCB policy rates guide the short-term money market rates; therefore, they can be changed as required. Owing to competition among commercial banks in the long run, changes in the banks' deposits and lending rates tend to match lager changes in the QCBLR quite closely. This reflects that borrowing through the QMR lending facility and/or borrowing interbank constitute potential marginal source of funds for individual banks.

In navigating the interbank overnight interest rates, QCB resorts to QMR mechanism. As pointed to earlier, in normal situations, when neither overall nor an individual bank's QCB credit ceiling is binding, the effective QMR credit interest rate provides the upper bound for the average overnight interbank market interest rates (AOIR). If overall ceiling is binding or the bank hits its borrowing ceiling it has to swap to the interbank market for extra borrowing. Likewise, under normal conditions, when neither the overall nor an individual bank's QCB deposits ceiling is binding, the effective QMR deposits rate provides the lower bound for AOIR. If overall ceiling is binding or a bank hits its deposits ceiling it has to switch to the interbank market to lend its extra funds.

QCB sets narrow initial QMR corridor for the overnight interbank rates, the effective width of which depends on the conditions of primary liquidity evolving in the course of the day. The effective QMR corridor is the target for AOIR. Therefore, the AOIR serves as a single operating target for the daily management of overall QR liquidity in the system. Interbank overnight rates normally range within the QMR effective corridor. However, in cases of extremely abundant or extremely scarce QR liquidity in the system, the AOIR may violate the relevant QMR boundary. Thus, the QMR effective corridor is reliable target that avoids excess volatility in interbank shorter-term interest rates (daily to weekly). Whereas the QMR effective corridor provides a dragging anchor on other interbank short-term rates, it leaves the money market free to trade to any level constrained only by market expectations of the policy stance the QCB will adopt at its next QMR review.

It is within this policy framework that QCB endeavors to regulate overall interday liquidity in the banking system so as to maintain monetary stability and the stability of domestic price levels in line with developments in the economy. Meanwhile, QCB effectively oversees and directs credit policies of local banks in such a way to alleviate excessive growth or deceleration in banks' credit.

II.4 Managing Intraday Liquidity:

The QCB role in the payment system is to be the settlement bank for direct participants in the system, i.e., local commercial banks. QCB has put in place an electronic fund transfer infrastructure the core of which is a fully integrated real time gross settlement system (RTGS) labeled: Qatar Payment System (QPS). The system permits all banks to make immediate interbank payments over their current-deposits accounts with QCB, which therefore is the vital link in the payment system. QCB provides required intraday QR liquidity by allowing the commercial banks to overdraft their current-deposits accounts over the course of the monetary-policy day. Thus, the liquidity concept central to QCB payment system function covers the current-deposits account plus overdraft facility. Access to the current-account overdrafts makes it simple for commercial banks to settle payments arising at different times during the day.

Because the overdraft facility is not extendable beyond the close of the monetary policy day QCB resorts to the branchlet payment-system-related function of QMR double standing facilities. Such function ensures that there is sufficient primary liquidity in the banking system when the current-deposit accounts are settled at the end of day. To satisfy this requirement, the QMR facilities are extended beyond the official working hours of a monetary-policy-day as funding facilities to finance end-of-day imbalances, where banks are allowed to exceed the relevant QMR ceiling at penalty interest rates determined by QCB.

II.5 Developments in 2004:

As referred to earlier, QCB monetary policy focuses on managing the short-term interbank interest rates with a view to sustaining the fixed parity between QR and USD. Therefore, QCB carries out constant review of QR rates and incessantly follows up changes in the rates on major currencies, mainly USD. In keeping changes in QR interest rates in tandem with changes in the US dollar rates throughout 2004, QCB had sustained its policy of shadowing the Federal Reserve System' targeted federal funds rate.

The FOMC started raising its target for the federal funds rate in June 2004 to 1.25% from 1.00% in May. The gradual removal of the monetary policy stimulus continued during the second half of the year. The FED raised its federal fund rate target in 25 basis points steps to reach 2.25% by end-December 2004.

In response, QCB had utilized the QMR instruments to bring about necessary changes in QR interest rates. The QCBLR was increased beginning July 2004 to 1.58% from its level of 1.33% end of June 2004 (ʃ its level end-December 2003) and continued rising to reach 2.6% by the year-end. Likewise, the QCBDR was raised beginning July 2004 to 1.48% from its level of 1.23% end-June 2004 (ʃits level end-December 2003) and continued rising to reach 2.5% by year-end.

Table (18) **QCB Policy Interest Rates and the FED Federal Funds Rate**

Period	TFFR %	QCBLR %	QCBDR %	QCBRR %
May	1.00	1.33	1.23	1.90
June 30th	1.25	1.33	1.23	1.90
July	1.25	1.58	1.48	2.15
August 10th	1.50	1.85	1.75	2.40
September 21st	1.75	2.10	2.00	2.65
October	1.75	2.10	2.00	2.65
November 10th	2.00	2.35	2.25	2.90
December 14th	2.25	2.60	2.50	3.15

Source: QCB, department of economic policies.

Table (22) Repurchase Transactions and The Repo Rate 2000-2005

End of Period	Number of Transaction	Volume QR Million	Interest Rate
2000	412	10,583.00	6.65%
2001	190	4,437.30	2.50%
2002	39	519.70	2.00%
2003	3	108.00	1.53%
2004	5	325.00	3.15%

Source: QCB Quarterly Statistical Bulletin, Vol. 23, No. 1, Table 19, P. 39.

QCB has been keen to harmonize the QCBRR with rates on the USD and other major currencies. Accordingly, QCBRR was increased to 2.15% in July 2004. The QCBRR was raised five times through the second half of the year to reach 3.15% by end-December against 1.53% end-June (see table 17).

Noticeably, the Repo transactions had been constantly declining in both number and value across 2000-2003 to rise only slightly during 2004. Being conducted at the initiative of local banks, the persistent decline in their numbers and volumes has been due to two reasons: the abundant liquidity available to commercial banks on the one hand; and that QCBLR has been lower than QCBRR. Such unrelenting decline in Repo activities is consistent with the growth of commercial banks' deposits via QMR deposits standing facility over the last three years. Both phenomena are coherent with the phenomenon of excess QR liquidity.

Section III

The QR Exchange Rate

As pointed out, the primary objective of QCB monetary policy is currency stability defined as stable external exchange value of the Qatari Riyal, in terms of its exchange rate in the domestic foreign exchange market against USD, at fixed parity of QR 3.64 to US$1. QCB statute requires that currency issued be at least 100% backed by foreign currency reserves, held by QCB at the fixed parity rate. Any increase in the volume of currency issued must be matched by a corresponding rise in the foreign currency cover. Under QR fixed exchange rate arrangement, QCB monetary policy is drawn and conducted in such a manner to secure the stability of the QR rate at parity with the US dollar. Other aspects than the exchange rate are of no advanced priorities for monetary policy.

III.1 QCB Management of Exchange Rate:

In its management of the QR rate, QCB operates with both foreign-exchange market interventions and changing policy-interest-rates. Whether to intervene or to change the policy rates are technically separate decisions, since may be implemented independently. Yet, changing policy rates and exchange market interventions may be, to some extent, seen as substitutes in relation to the QR exchange rate. Nevertheless, this will depend on the size and sustainability of capital flows, particularly financial capital flows.

In the short-term QCB will only use interventions in defending the peg. Isolated exchange market interventions take place primarily to alleviate temporary pressures in the exchange market. In the long run, QCB keeps the QR stable vis-à-vis the USD by adjusting QCB monetary policy interest rates. Whereas the foreign exchange market is stable, QCB normally changes its policy interest rates in step with changes in USA Federal Reserves' targeted federal funds rate. The spread between QCB monetary-policy (Lending) interest rate and the targeted federal funds rate is a key to QCB monetary policy and the QR rate.

Stabilizing the QR rate is not just the result of QCB interventions and/or changes in its policy interest rates. It is attributable first and foremost to the constantly sustained high credibility of the QR peg, which underpins constant expectations in USD domestic exchange market. Market participants take US dollar positions in expectations of highly stable parity thereby contribute to stable parity. Such market confidence is accentuated by a high foreign currency cover fluctuating around 400% in recent years.

With QCB policy interest rates shadowing the US Federal Reserves' targeted federal funds rate, the QR exchange rate is stabilized at its parity via an automatic interest rate adjustment mechanism. If the demand for QR declines and there exist an upward pressure on the exchange rate, QCB stands ready to purchase QR from the banks. The aggregate current-deposits account (as a component to the Monetary Base) will then fall, driving up QMR borrowings and driving QMR deposits down. Thus, drives both QCBLR and QCBDR up, hence the interbank QR interest rates. A rise in QR interest rates against their US counterparts will widen the QR/USD interest differential and induce capital inflows, thereby restore exchange rate stability. Conversely, if the demand for QR increases and the downward pressure builds up in the local USD exchange market, QCB stands ready to sell QR to banks for US dollars. The aggregate current-deposits account will then rise driving QMR borrowings down and driving QMR deposits up. Thus, drives both QCBLR and QCBDR down, hence the interbank QR interest rates. A fall in QR interest rates against their US counterparts will narrow QR/USD interest differential and restrains capital inflows, thereby restore exchange rate stability.

III.2 Foreign Exchange Market Interventions:

Owing to regional geopolitical developments and the political risk surrounding the Arabs and/or Moslems economic activities in the Western countries in the last years, GCC national private capitals became reluctant to outflow. Furthermore, investments overseas started to flow back home. On other hand, sky-hiking nominal oil prices led to higher foreign currency public revenues, resulting in more government spending out of its foreign currency proceeds. Espoused with the phenomenon of net foreign currency inflow, have placed upward pressures on the value of the QR vs. USD, calling for QCB interventions.

The exchange and money markets were generally stable through-out 2004. As appreciation pressures built up on the QR during the second half of the year, QCB performed occasional side operations under which it sold a total of QR 1,379.00 million for US$379.00 million in response to banks offers. Ceteris paribus, QCB foreign exchange market operations lead to corresponding changes in the aggregate current-deposits account. QCB purchases (sales) of USD impact positively (negatively) on the banks' net position vis-à-vis QCB and the HPM. Therefore, increase (reduce) QR liquidity in the banking system.

III.3 Interventions and Instruments:

QCB may wish to offset the monetary effects of its operations in the foreign exchange market. Such corrective policy is performed via conventional sterilization-oriented instruments. Alternatively, effects of QCB market interventions on the money supply process are partly neutralized via QCB instruments. QMR credit increases domestic monetary sources of the monetary base, neutralizing the monetary effects of QCB foreign exchange sales. Meanwhile, QMR deposits reduce QCB monetary liabilities, and thus neutralize the monetary effects of QCB USD purchases. QMR mechanism plays an effective role as a prudent instrument alternate to conventional sterilization oriented instruments.

III.4 Developments in 2004:

The QR sustained stability at the fixed parity with the US dollar through 2004, despite capital inflows, growing public spending, and the depreciation of the USD. Yet, the decline in the exchange value of the USD against other major currencies of Qatar trading and financial partners contributed, through the linked exchange rate arrangement, to a further decline in the effective exchange rate value of the Qatari Riyal, therefore fueled imported inflation. Floating with weakening USD and impacted by its performance in the world financial markets, QR continued to depreciate against major currencies other than the US dollar across 2003-2004.

Taking year average nominal exchange rates, the Euro, the Pound sterling, the Swiss franc, and the Japanese yen had appreciated against the QR at the annual rates of 19.90%, 8.84%, 15.71% and 8.157%, respectively, across 2003. The QR continued depreciating against non-USD major currencies across 2004. The Euro, Pound sterling, Swiss franc, and the Japanese yen, appreciated against the QR at annual average rates of 10.0%, 12.1%, 8.3% and 7.16%, respectively (Tables 18 and 19).

Table (23) **Exchange Rates of Major Currencies Against the QR: Year Average 1999-2004**

Currency	1999	2000	2001	2002	2003	2004
Euro	3.8780	3.3536	3.2573	3.4265	4.1084	4.5197
Pound Sterling	5.5736	5.5186	5.2416	5.4647	5.9478	6.6678
Japanese Yen(100)	3.1955	3.3776	2.9951	2.9029	3.1397	3.3644
Swiss Franc	2.4231	2.1554	2.1569	2.3354	2.7023	2.9272

Source: QCB Quarterly Statistical Bulletin, Vol. 23, No. 4.

Table (24) **Rates of Change in the Exchange Rates of Major Currencies Against the QR: Year Average 00-04**

Currency	2000	2001	2002	2003	2004
Euro	-13.522	-2.872	5.194	19.901	10.011
Pound Sterling	-0.987	-5.019	4.256	8.840	12.105
Japanese Yen(100)	5.699	-11.324	-3.078	8.157	7.157
Swiss Franc	-11.048	0.070	8.276	15.710	8.323

Source: computed from table 37.

III.5 Implications of the Weakening US Dollar:

It is known that imports are non-competitive in the Doha markets, in the sense that the prices of the domestically produced imports' substitutes do not affect the domestic prices of imported goods significantly. Therefore, the latter can hardly deviate from their international levels. Besides, the structure of the import tariffs has never been effectively protective. Hence, the domestic price of an imported commodity is given as its foreign price in terms of the currency of the source country multiplied by the exchange rate of the respective currency against QR. Technically speaking, while foreign suppliers mark-up costs to price their exports, prices of imported commodities in local markets are subject to a complete exchange rate pass-through[1]. Therefore, changes in the domestic prices of imported merchandise are entirely explained by changes in their foreign price and/or in the relevant exchange rate. Thus, domestic prices are exceedingly sensitive to changes in exchange rates of Qatar trading partners' currencies against the US dollar.

Since inflation has been low in the USA and other industrialized countries, the QR/US dollar link had contributed significantly to keeping imported inflation under control for more than twenty years. The implications for the domestic economy had been the favorable consequences of the strong USA economy, particularly during the new economy boom, whence US economy had enjoyed six consecutive years of rapid growth with low inflation (1995-2000). Moreover, the US dollar strength was, to a great extent, the mirror image of sever weaknesses of other major currencies due to the weaknesses of their economies, whence most of the global economy was relatively stagnant. Furthermore, the Asian financial crisis and financial turmoil in other countries (from Russia to the Argentina) contributed to the dollar strength.

Generally speaking, the effectiveness of fixed USD/QR exchange rate policy has been marked, particularly during periods of sharp fluctuations in international oil prices and major adjustments in emerging market economies; particularly under the conditions of regional war times prevailed over the two decades preceding the September eleventh events of 2001. Consequently, inflation rates have moved almost pari passu with the USA rates up to then.

However, after reaching a new peak early in 2002, the US dollar had been falling hastily since then. Since Qatar depends heavily on imports to satisfy domestic demand for both consumers and producer's commodities, persistent depreciation of the US dollar –hence, QR- against currencies of

(1) Complete exchange rate pass-through means that changes in the exchange rate are assumed fully reflected in the domestic prices for imports implying an equi-proportional relation between changes in domestic import prices and changes in the exchange rate.
(2) Ratios computed on FOB basis. Review Chapter Two of this Report for more details.

Qatar major trading partners has impacted on the domestic prices of tradables. Furthermore, the decline in the exchange value of the USD is expected to continue for the foreseeable future so long as the US twin deficit continues to sky-hike. Keeping the fixed parity between the QR and the USD is to keep the QR floating against the non-US dollar linked and/or the floating currencies.

Meanwhile, the Euro-land has been the most important exporter trade partner of Qatar (34.91% and 45.87% of the Qatari imports in 2003 and 2004, respectively); Asia comes second in terms of its share in Qatari imports (28.79% and 18.36% of in 2003 and 2004, respectively); whilst US is lagging far behind in terms of origin of imports (North American countries totaled 12.18% and 9.62% of in 2003 and 2004, respectively)[(2)].

Although the growth in the average Consumer Price Index (CPI) for the non-rent categories which excludes rent, fuel, water, and electricity was relatively moderate in 2004; the steady recoil of the US dollar would result in constantly rising domestic prices of imported commodities and lifting up imported inflation. Permanency of the high oil prices would reinforce such effect via heaving production costs and hence foreign prices.

Section IV
Monetary Developments in 2004

Preview:

An oil and gas producing, capital exporting, small open economy, Qatar adopts the monetary strategy of exchange rate targeting. The formal framework for Qatar exchange-rate regime is a fixed parity between the QR and the US dollar at the rate of QR 3.64 per USD1. Qatar imposes no restrictions on cross-border capital flows. Consequently, economic developments in Qatar reflect complex interactions among external and internal factors, where external environment impinges on the Qatari economy both directly and indirectly. Directly via foreign trade dynamics and indirectly via the dynamics of income, foreign direct investment, and financial capital flows.

Changes in oil and gas prices in the international markets directly affect the government budget. In turn, this impacts directly on the aggregate demand through higher public spending. Moreover, it influences effective demand indirectly via influencing non-oil private sector economic activity. Developments in global inflation, particularly in countries major trading partners of Qatar, and/or in the exchange rates of the USD against other major currencies, impact on the domestic price levels.

Changes in the policy interest rates, particularly of United States' Federal Reserve, have immediate influence on key global financial markets. Hence impact on portfolio capital flows and positions of the capital and financial accounts of the balance of payments. Evidently, portfolio financial flows are highly responsive to episodes in international financial markets; security of overseas investments; international, regional, and domestic developments, and economic implications of the regional and global geopolitical developments. By bearing on the lucidity of portfolio capital flows, such events indirectly impact on the QCB foreign exchange reserves and foreign assets held by commercial banks, hence, influence domestic liquidity. Therefore, impact on the aggregate demand and, in the longer-term, on the evolution of domestic inflation.

Under the monetary strategy of fixed exchange rate and the fact that oil and gas are priced, invoiced, and paid for in terms of USD, there are three major factors that influence the process of money supply in the Qatari economy:

1. The government sales of foreign exchange for QR, to finance public spending programs. Therefore, fiscal policy actions have immediate monetary consequences.
2. The behavior of the banking sector, where growing liabilities enable local banks to extend credit to the economy; thus reinforce the money creation process.
3. The position of private sector's balance of payments (i.e., net operations of the private sector with the rest of the world), which represents partial absorption of the foreign exchange revenues in the process of financing the private commodity import, income transfer, and capital export.

The first two factors signify liquidity sources. The third factor had historically been a channel for liquidity leakage abroad. However, following the events of September the eleventh, the US invasion of Afghanistan and Iraq, and the declared continual war by the USA and the west against the unclearly defined 'terrorism,' GCC capital flows have switched directions, at least partially. The position of the private sector's balance of payments turned a liquidity source augmenting money supply rather than draining liquidity.

IV.1 External Environment(3) :

The economic and monetary conditions in Qatar are particularly influenced by changes in the USA Federal Reserve policy interest rates; US dollar exchange rates against currencies of Qatar's major trading partners; the developments in the international oil and gas markets; and the economic implications of the regional and global geopolitical episodes, particularly in relation to security of overseas investments. Factors that shaped global economic and financial developments throughout 2004 include the continuing warfare in Iraq, the complete subsidence of uncertainties related to SARS epidemic, the firm recovery of the global economy, the relatively docile inflation, and the persisting depreciation of the USD. The later has greatly influenced the economic and financial conditions of other economies, particularly in the Euroland.

IV.1.1 Global Economic Growth:

Although seemed to had run out of steam in the second quarter of the year, global economic recovery gathered strength throughout 2004 and

(3) Please review Chapters1 and 2 of this report for domestic environment.

became more widespread and broadly based. For much of the year, the world economy had performed splendidly driven by strong dynamics, supported by sustained economic expansion in the US and the emerging Asian economies, particularly China. Economic activity also forged ahead in other countries including Japan, Latin America, Eastern Europe, and the OPEC countries. Although remained weak in general, the internal growth in the Euroland picked up finally. Overall, the world economy grew at an estimated 5%, accelerating by 42.86% from 3.5% in 2003.

Yet, this rapid growth with its relatively favorable prospects was attended by downward risks that could dampen its vitality. The main source of concern is the United States external imbalance whose steady worsening current account deficit generated further downward pressures on the exchange rate of the dollar. A second source of concern is the low long-term interest rates worldwide. Such low rates have generated a search for yield implying greater risk tacking on the behalf of investors, implying perhaps higher cost of adjustment whenever it comes. A third source of concern is the price explosion in the oil and commodity markets in 2004, although its macroeconomic impact is not comparable with the shocks of the 1970s.

IV.1.2 Policy Interest Rates:

Overall consumer prices rose more in 2004 than they did in 2003 in the US. The (chain-type) price index for personal consumption expenditures (PCE) grew by 2.5% compared with 1.75% in 2003. However, PCE excluding food and energy increased by 1.6% vs. 1.2% in 2003. The core consumer price index (CPI) grew at 2% in 2004 vs. 1.25% in 2003[(4)]. Throughout most of 2004, inflation in the Euroland stayed at a level above the ECB intermediate target of ‘below but close to 2.00%.’ Overall ECB ‘Harmonized Index of Consumer Prices’ (HICP) reached 2.40% end-December with an average of 2.1% for the year.

Appropriately, monetary policy was tightened in the US and many other countries. Except ECB and the Bank Of Japan, many central banks raised their target policy interest rates during the second half of 2004. Though inflationary expectations remained calmly under control, the FED reported price pressures and gave rise to expectations of sustained upward trend in US interest rates. The FOMC started raising its target for the

(4) The ninety-dfirst ammual report, The Board of Govermers, The federal Reserve System, 2004..

federal funds rate in June 2004 to 1.25% from its 1% level in May. The gradual removal of monetary policy stimulus had continued throughout the second half of the year. The FED had constantly raised its federal funds rate target in 25 basis points steps to reach 2.25% end-December. The FED announced that it would continue its gradual tapering policy until reaching neutral interest rate level. The ECB has not adjusted its policy interest rate since June 2003 and the market expectations of no increase throughout 2004 were fulfilled.

IV.1.3 The US Dollar:

The US dollar rose slightly across the first half of 2004 owing to the perceptions that monetary policy would tighten more quickly in the US than elsewhere. Beginning September, the USD resumed fall against the euro hitting series of historical minimums to reach it's lowest by year turn (at 1.36 dollars per euro). Correspondent, but more submissive, development vis-à-vis the Japanese yen was evident. The weakening of the US dollar against several Asian and South and Central American currencies has been less evident or non-existent.

The weakening of the dollar, up to the turn of the year, should be viewed against the background of the historically record high and rising US current account deficit as market participants focused on its financial implications. The US trade deficit expanded from US$500.00 billion during the fourth quarter of 2003 to more than US$650.00 billion, on average, during the second half of 2004. Meanwhile, the current-account deficit registered an annual rate of US$660.00 or 5.6% of the US GDP during the second and third quarters of 2004. Persisting for several decades, one or two years excepted, the US current-account deficit has expanded to 5.7% of American GDP end-2004. The deficit has been mainly financed, by Asian central banks' purchases of US government securities. Yet, several of these banks, and the Russia's, seem to have partially converted from dollar to euro-denominated bonds and securities. Should the preparedness to finance the US current-account deficit subside, the dollar rate could drop substantially further and push up both short and long-term interest rates.

The US record fiscal deficit, 4.2% of GDP over 2004, has been the twin-factor that impacted on the dollar exchange rates. Although the budget deficit came to figure on the political agenda and the intentions are to half it in five years, these policy intentions are still insufficiently concrete to make such objective highly credible. Awfully low USA savings ratio and stronger growth, than in the Euroland (a major export market for the United States), have been important influencing factors. An expansion of savings in the US is –among other factors- a prerequisite for remedying the current-account deficit. The most apposite way to boost national savings in the US seems to be a reduction of the budget deficit.

Expectations of higher US interest rates, concern about possible ECB intervention, and improving conditions of US labor market slowed down the depreciation of the dollar for moments in 2004.

IV.1.4 International Oil Trends :

The demand for oil has increased considerably over the last three years in view of high global economic growth. China, India, and other emerging market economies, along with the United States have most accounted for the rise in global demand. On the supply side, the surplus capacity in both oil production and refining has diminished and the opportunities to expand capacity are limited in the short-run.

In step with decreasing excess capacity and rising global demand, political instability in the Middle East had further exacerbated the oil price hikes in 2004. The unrest in Nigeria and the hurricanes in the Mexican Gulf have also contributed to higher prices during the second half of 2004.

The first six months of the year saw the price of oil climb from US$30 to USD36 per barrel (Brent crude). Following a decline in June amid signs of rising supplies and inventories, oil prices had rebounded sharply in July, soared to an all-time high in August. After subsiding a bit towards the end of August, prices picked up in September and increased further to reach a new all-time high of US$52 in October. To end with, prices had strongly declined in November and December.

IV.1.5 Geopolitical Conditions:

Hostilities in the occupied Iraq and Palestine as well as the rising political tensions in the Arabian Gulf and other Arab countries had been unrelenting throughout 2004. Reluctances on behalf of the Qatari (and GCC) investors to channel their capital surpluses to outflow to the US and other western assets markets persisted throughout 2004. Higher preferences, on behalf of GCC national investors for domestic real and financial investment portfolios reduce liquidity leakage abroad, if not reversing directions of net portfolio and other capital flows, augmenting domestic liquidity.

IV.2 Monetary Developments in 2004:

Against the above background Qatar Central Bank had maintained its interest rate policy of shadowing the USA FED' targeted federal funds rate. Therefore, QCB increased QCBLR from 1.33% in June 2004 to reach 2.6% by end-December 2004(5). Monetary conditions remained remarkably easy throughout 2004, driven by persisting capital inflows and growing public spending.

The monetary base expanded by 24.02% versus 19.10% end-2003, an acceleration of 4.92 percentage points or 25.76%. Net foreign monetary assets cover of the monetary base declined to 224.18% by end-2004 vis-à-vis 237.86% end-2003. However, the base cover remained firmly high. The growth in the money base relative to the monetary aggregates signified a larger marginal multiplier for the narrow money than the marginal multiplier for broad money.

The broad money expanded by 20.53% across 2004. Such growth is unprecedented since 1984, when it grew by 22%. Nevertheless, it had been broadly consistent with the growing requirements of the ongoing economic expansion and closely aligned with the GDP growth of 20.04%. Furthermore, it had been compatible with the stability of the QR-USD exchange rate and the moderate domestic inflation environment. Yet, it was far above the non-oil-non-gas GDP growth of 14.81%, signaling potential inflationary pressures.

The analysis of domestic credit reveals that the major reduction in the stock of government direct borrowings from commercial banks, espoused to the evidential monetary expansion, lead to an accelerated growth in the commercial banks' credit extended to the private sector. Commercial banks endowed with ample excess liquidity, raised lending to private enterprises and the household sectors attracted by and reinforcing persistently rising prices in the assets markets. In a nutshell, the financial market continued to operate under conditions of ample liquidity in 2004.

(5) See Section II for more details.

The following Subsections analyze and discuss the developments in the monetary aggregates across 2004; but we first start with the monetary base.

IV.2.1 The QCB Financial Statement:

QCB is in charge of the portfolio of reserve assets allocated to the management of QR exchange rate and QCB monetary policy. It is not in charge of the portfolio of the State foreign reserves. Such responsibility is entrusted to "The Supreme Council for Economic Affairs and Investment," an independent government agency. QCB activities are reflected in the composition of assets and liabilities on its Financial Statement. In addition to QCB_QR denominated transactions, QCB Financial Statement is predominantly affected by transactions related to QCB side operations in the local foreign exchange market.

The term 'monetary base' characterizes the quantity of money that is potentially available to the banking system as the basis for creating bank deposits. Monetary liabilities on the QCB financial statement comprise the high-powered-money (i.e., the monetary base). All other entries taken together comprise the source base (sources of high-powered money). Thus, the high-powered money encompasses the monetary liabilities of the central bank(6). These are the uses of the monetary base. The central bank's net foreign assets, net credit and advances, net claims on government, and its "other items net" together make up the sources of the monetary base, called the "source base".

The environment surrounding the functioning of QCB could be characterized by the following:

1. The fixed exchange rate arrangement.
2. Openness of the capital and financial accounts of the balance of payments.
3. Oil and gas are priced, billed, and paid for in foreign exchange (US dollars).

Within this environment, there are four factors that influence the monetary base. These factors are:

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(6) Monetary liabilities of the central bank are those held by the public (currency in circulation) and commercial banks (commercial banks 'required reserves and current deposits with the central bank plus banks' vault cash).

1. Government domestic expenditures out of its foreign exchange oil and gas exports Proceeds.
2. The private sector's Balance of Payments position.
3. The QCB monetary policy actions.
4. Changes in QCB other net assets.

The first two factors amend QCB foreign assets, the last presents a domestic source of the base, and the third amends either or both. The money base increased from QR 4,396.63 million by end-2003, to reach QR 5,452.87 by end-2004. That is a growth of 24.02%, or QR 1,056.24 million. This is almost one and a half fold the rise of QR 705.25 million across 2003. Thus, the growth of the monetary base across 2004 accelerated by 4.9 percentage points or 25.65% vis-à-vis its growth of 19.1% across 2003. The growth in the HPM was entirely driven by the growth in QCB net foreign assets owing to the rise in foreign exchange reserves, which in turn owed to net financial capital inflows on the one hand, and QCB net investment and foreign currency assets' valuation changes on the other hand.

IV.2.1.1 Uses of the Monetary Base:

QCB monetary liabilities are those held by commercial banks and the non-bank public, specifically: Banks' required reserves; Banks' current deposits account at QCB; and Currency in circulation. The structure of the high-powered money is presented in Table 20. QMR deposits within QMR mechanism are not included in the QCB money base. Reasons for their exclusion are:

1. Banks' QMR deposits initiated within QMR mechanism are time deposits of one-day maturity extendable to next day-Rollover with no time limit. Therefore, they do not qualify for satisfying reserve requirements at any moment before maturity.
2. Banks' initiated QMR deposits are restricted from use for other purposes prior to maturity. Commercial banks may not use their QMR deposits, initiated within the framework of QMR mechanism, without notice, as means of settlement payments.

3. Banks' initiated QMR deposits are not a monetary liability of QCB that is included in the QCB definition of broad money.

Uses of the Base=High-Powered Money
2002-2004

Table (25)

Millions of QR

Uses of HPM (% of HPM)	2002	2003	2004	Growth 04-03	
				Value	%
Currency Issued	**2,266.6190**	**2,600.2310**	**3,123.2220**	**522.9910**	**20.11**
	(61.40%)	(59.14%)	(57.28%)	(49.51%)	
C. Circulated	1,922.1014	2148.4074	2596.1218	447.7144	20.84
	(52.07%)	(48.86%)	(47.61%)	(42.39)	
Cash In Vault: QCB	0.1217	0.2951	0.2512	-0.0439	-14.88
Cash In Vault: Banks	344.3959	451.5285	526.8490	75.3205	
	(9.34%)	(10.27%)	(9.66%)	(7.13)	16.68
Banks' Res.	**1,424.7592**	**1,796.3965**	**2,329.6480**	**533.2515**	**29.68**
	(38.60%)	(40.86%)	(42.72%)	(50.49%)	
Required Res.	1,242.1130	1,443.7950	1,616.6290	172.8340	11.97
	(33.65%)	(32.84%)	(29.65%)	(16.36%)	102.23
Banks' Cur-Deposits	182.6262	352.5515	712.9690	360.4175	
Accounts.	(4.95%)	(8.02%)	(13.08%)	(34.12%)	
Others (QI&D)	0.0200	0.0500	0.0500	0.0000	0.0000
Excess Reserves	527.0221	804.0800	1,239.8180	435.7380	54.19
	(14.28)	(18.29)	(22.74)	(41.25)	
Total = HPM	**3,691.3782**	**4,396.6275**	**5,452.8700**	**1056.2425**	**24.02**
	(100%)	(100%)	(100%)	(100%)	

Source: QCB financial statement and the aggregate balance sheet of the local banks, December 31st.

Therefore, paragraph no.328 of the IMF 'Monetary and Financial Statistics Manual' is applicable to the commercial banks' initiated QMR deposits subject to QMR mechanism. Hence are not to be included in the monetary base(7). Rather than being a use of, banks' initiated QMR deposits are unquestionably a (negative) source of the base. Fluctuations in QMR deposits are instantly reflected in the aggregate current-deposits account, thus in the high-powered money. Ceteris paribus, QMR deposits result in reducing the HPM during monetary-policy day. On the contrary, termination of QMR deposits (by not extending it to next day) results automatically in heaving HPM(8). This argument reflects the main objective

(7) See the IMF 'Monetary and Financial Statistics Manual', 2000 edition, p. 65.

(8) QMR deposits are subject to overall and bank-by-bank ceilings determined by QCB. Banks' deposits via QMR accrue interest at a maximum rate equal to the QCBDR, which is an overnight rate. QMR effective deposits rate is flexible over the course of the monetary-policy-day. See Section II of this Chapter for more details on QMR mechanism.

of bank initiated QMR deposits within the QMR deposits facility, which is to wipe up excess QR liquidity off the banking system. The above argument does not apply to end of day involuntary QMR deposits.

A- Currency Issued:

Currency issued rose by QR 523.00 million, from QR 2,600.23 million end-December 2003 to QR 3,123.22 million end-December 2004, a growth of 20.11% vis-à-vis 14.72% across 2003. That is an acceleration of 5.39 percentage points or 36.62%.

Evidently, the growth in currency issued accelerated faster than, and contributed most to the growth in the high-powered money, constituting 49.51% of its increase across 2004. This increase is decomposed into an increase of QR 447.71 million in currency in circulation (from QR 2,148.41 million to QR 2,596.12 million, a growth of 20.84% and contribution of 42.39% to the increase in the base) and a rise of QR 75.32 million, in the banks' vault cash (from QR 451.53 million to QR 526.85 million, a growth of 16.68% and contribution of 7.13% to the rise in the base).

B- Required Reserves:

QCB applies a required reserve ratio (RRR) to all types of deposits with commercial banks at a flat rate of 2.75%(9). Required reserves rose by QR 172.83 million from QR 1,443.80 million end-2003 to QR 1,616.63 million end-2004, a growth of 11.97%. Comparing to 16.24% end-2003 implies a deceleration of 4.27 percentage points or 26.29%. Required reserves contributed 16.36% of the increase in the high-powered money by end-December 2004.

Because government deposits are allocated to commercial banks and are subject to fractional required reserves, required reserves against government deposits are a monetary liability of QCB that is included in the base(10). It therefore follows that the conventional computations of a money multiplier using the standard monetary ratios overestimate the money multipliers in the Qatari economy. On other hand, government deposits are not included in the QCB defined monetary aggregates. It therefore follows that a standard direct computation of a money multiplier

(9) Including government deposits with commercial banks.
(10) Government deposits are subject to the same RRR as private deposits.

(dividing the monetary aggregate into the monetary base) understates money multipliers in the Qatari economy(11).

C- Banks' Current-Deposits Account:

In its capacity as banker to the banks, QCB holds several accounts for commercial banks and manages the settlement of their mutual payments. The banks' account central for QCB monetary policy is the current-deposits account, which also plays a prime role in the QCB payment system function in the sense that:

1. QCB credit and advances to, and deposits from commercial banks, within the QMR mechanism and/or Repo agreements, are settled via their current-deposits accounts.
2. QCB credit to, and deposits from commercial banks, within the end of day involuntary QMR extended facilities, are settled via their current-deposits accounts.
3. All Other QCB transactions with commercial banks, including foreign exchange transactions are settled via the current-deposits accounts.
4. Current-deposits accounts are the backbone of QCB payment system where large daily liquidity transfers between commercial banks take place.

The aggregated current-deposits account (all banks as one) is the key liquidity concept in QCB monetary policy because these funds can be immediately used as means of payment at the initiative of the account holders themselves. Interday changes in the aggregate current-deposits account immediately reflect on the net banks' position vis-à-vis QCB and, hence the high-powered money(12).

Taken at its face value, the year-end balance of the aggregated commercial banks' current-deposits account at QCB rose from QR 352.55 million end-2003 to QR 712.97 million end-2004, a rise of QR 360.42 million or 102.23%. Compared to an increase of 93% across 2003 implies an acceleration of 9.18 percentage points or 9.87%.

(11) For detailed computations, see Section V.5 of this Chapter.

(12) Intraday movements in the current-deposits accounts are rather considered as payments settlements. They are not regarded a part of the QCB monetary policy.

Apparently the current-deposits account contributed significantly to the growth in the monetary base, comprising 34.12% of the increase in the base end-2004. However, the end-year balance is not reflective of the average conditions across the year. Tracking end-of-month aggregate current-deposits account indicates that it reached its minimum of about QR 170.50 million by end-July, a local maximum of QR 370.10 million end-September, and global maximum of about QR 713.00 million end-December. However, the January-November weighted arithmetic average is about QR 278.19 million. Hence, indicating noticeable irregularity of the end-December position of the banks' current-deposits account.

Such disproportionate increase by end-December is attributable to preparations on the behalf of commercial banks for expected large transfers mid-January 2005 by the issuance of "Qatar Gas Transportations Company" shares; their preparations for coupon interest payments on government bonds due end-December, and -most influencing- the partial redemption of the government direct borrowings from commercial banks over the fourth quarter(13). This was evidenced – among other banks' activities- by a gradual build-up of primary liquidity through US dollar sales to QCB during the forth quarter (banks' sales reached $232 million throughout the forth quarter of 2004), and by a surge in banks clearings activities in December (the total value of cleared cheques increased from QR 4,154.00 million in November 2004 to 5,822.00 million in December 2004; a surge of QR 1,668.0 million or 40.15%)(14).

D- Banks' Cash in Vault:

Cash in the commercial banks vaults grew from QR344.40 by end-2002 to QR 451.53million end-2003, then to QR 526.86 end-2004. That is, a growth of 16.68% across 2004 vis-à-vis growth of 31.1% across 2003, a deceleration of 86.5%. The ratio of cash in vault to demand deposits had declined from 5.55% across 2002 to 4.95% across 2003 then declined to 4.39% across 2004, a deceleration of 0.56 percentage points or 11.3% across 2004 vs. a deceleration of 0.60 percentage points or 11% across 2003. Such behavior reveals that expectations of deposits outflow had been decelerating at a fairly stable rate across 2003-2004.

(13) The situation has clear similarity to that of end-June 2003 prior to privatizing the 'Qatar Industries' holding company and the coupon payments in June.

(14) Banks' US$ sales to QCB amounted to $20 million in October, $50million in November, and $162

However, the conventionally recognized ratio of expected deposits outflow does not truly reflect commercial banks' expectations of deposits outflow in Qatar. That is so because government deposits are allocated to commercial banks rather than to the central bank, hence are not sterilized. The ratio of cash in vault to banks' total transactions deposits is therefore a more precise measure of the expected deposits outflow. The ratio of cash in vault to the total transactions deposits declined from 4.55% by end-2002 to 4.51% end-2003, then to 3.46% end-20024. A dramatic fall in the overall expected deposits outflow on behalf of the commercial banks in the order of 1.05 percentage points or 23.28% across 2004 versus a decline of 0.04 percentage points or 0.88% across 2003. Unlike the ratio to private demand deposits, these results imply sharply fading expectations of deposits outflow over 2003-2004.

E- Banks' Excess Reserves:

Commercial banks' excess reserves encompass aggregate current-deposits account with QCB and cash in the banks' vaults. Hence, excess reserves grew from QR 804.08 million by end-2003 to QR 1,239.82 million by end-2004, an increase of QR 435.74million or 54.19%. Compared to 52.57% end-2003, an acceleration of 1.62 percentage points or 3.08%.

The ratio of excess reserves to private demand deposits grew by 8.49% across 2002, 8.81% across 2003, and 10.24% across 2004. That is, an acceleration of 1.43 percentage points or 16.2% across 2004 versus 0.32 percentage points or 3.77% across 2003. That is, excess reserves ratio accelerated dramatically faster across 2004.

The ratio of excess reserves to total demand deposits (including government sector deposits) grew by 6.97% across 2002, 7.30% across 2003, and 8.13% across 2004. That is, an acceleration of 0.83 percentage points or 11.34% across 2004 vs. 0.33 percentage points or 4.73% across 2003. Although slower than conventional excess reserves ratio, the growth in the ratio of excess reserves to total demand deposits was highly accelerated across 2004.

The elevated rise in the ratio of commercial banks' cash in vault to private and/or to total demand deposits rose seem to reveal either a phenomena of rising liquidity preference on the behalf of commercial banks, or ample excess primary liquidity available to banks, or both. Yet, recognizing the irregularity of the current-deposits account by end-2004, this seemingly obvious conclusion is in fact much less dramatic than it may appear and is difficult to generalize.

IV.2.1.2 Sources of the Monetary Base:

The source base comprises both QCB net foreign assets (QCBNFA) and QCB net domestic assets (QCBNDA). Therefore, sources of the monetary base are either QR or foreign currency sources. Foreign currency source is measured as QCB holdings of assets denominated in foreign currencies, evaluated at current market prices or at fair value. QR sources of the monetary base are measured as QCB holdings of QR denominated assets. Balances due to central banks, the AMF, and other relevant foreign liabilities are excluded to obtain net QCB foreign assets. Domestic liabilities, including capital and reserves, are excluded to obtain net QCB domestic assets. Table 21 shows the structure of QCB assets by the end of December for the years 2002-2004.

Table (26)

The Structure of QCB Assets 2002-2004

Millions of QR

Uses of HPM (% of HPM)	2002	2003	2004	Change 04-03 Value	Change 04-03 %
Foreign Assets	5,625.3549	10,633.9860	12,448.8623	1,814.8763	
Foreign Liabilities	6.8113	10.8679	7.8048		
Net Foreign Assets	**5,618.5436**	**10,623.1181**	**12,441.0575**	**1,817.9394**	**17.11**
Domestic Assets	378.7640	285.1842	418.1877	133.0035	
Domestic Liabilities	2,305.9294	6,511.6746	7,406.3752		
Net Domestic Assets	**-1,927.1654**	**-6,226.4904**	**-6,988.1875**	**-761.6971**	**-12.23**
M. Base= NFA+NDA	**3,691.3782**	**4,396.6277**	**5,452.8700**	**1,056.2423**	**24.02**

Source: Computed from QCB Financial Statements, December 31st.

QCBNFA rose from QR 10,623.1 million end-2003 to QR 12,441.1 million by end-2004, an increase of QR 1,818.0 million or 17.10%. Meanwhile, QCBNDA contracted by QR 761.70 million or 12.23%. Growth in QCBNFA partly reflects net capital inflows (particularly portfolio); assets revaluation changes; and the augmentation of QCB foreign assets portfolio due to QCB net investment income. Yet, such growth owed mostly to QCB side intervention operations in the local exchange market as net purchaser of $379.00 million during 2004.

A. Monetary Sources of the Base:

For purposes of the analyses conducted in this Section, sources of the high-powered money are broadly classified into monetary and non-monetary sources. Monetary sources are further categorized as net foreign reserve source, net central bank credit source, and other monetary sources. Changes in the major monetary sources of the base are influenced by QCB monetary–policy actions. Thus, we typify such sources as monetary-policy sources. Non-monetary sources of the base are QCB assets that do not qualify as monetary assets; i.e., are not liquidable in the short-run, are not readily for use by QCB, and are independent of the monetary policy actions. Non-monetary sources may include QR or foreign currency assets. Examples include the State shares in non-monetary organization (like the AMF and IBR&D) and fixed assets on the assets side and capital, provisions, and the general reserves on the liabilities side.

The monetary sources of the base grew by QR 1,476.82 million or 14.33%, while the non-monetary sources declined by QR 420.57 million or 7.11% across 2004. Table 22 categorizes the sources of the base end-December 2002-2004, and the following subsections elaborate briefly on each.

Table (27)

The Structure of QCB Assets
2002-2004

Millions of QR

Groups	2002	2003	2004	Change 04-03 Value	Change 04-03 %
Monetary Sources:	**5,262.5585**	**10,308.1820**	**11,784.9974**	**1,476.8154**	**14.33**
For. Reserves Source	5,184.9852	10,169.1926	11,860.4162	1691.2236	
Net Credit Source	-304.0000	-99.0000	-260.6942	-161.6942	
Other Mon. Sources	381.5733	237.9894	185.2754	-52.7140	
Non-Mon. Source	**-1,571.1803**	**-5,911.5545**	**-6,332.1274**	**-420.5729**	**7.11**
Source Base	**3,691.3782**	**4,396.6275**	**5,452.8700**	**1,056.2425**	**24.02**

Source: Computed from QCB Financial Statements, December 31st.

A1. QCB Foreign Reserves Source:

Foreign reserve assets are those foreign currency assets held by monetary authorities for purpose of meeting balance of payments (BOP) financing needs, for intervention in exchange markets, and for other purposes. Such assets are external liquid financial assets that are owned and/or controlled by the monetary authority and are readily available for its use[15]. As such, foreign reserves assets are a subset of the monetary authority's foreign currency assets, which excludes assets that are not qualified as foreign reserves. The following items are excluded from the monetary authorities' net foreign currency assets to obtain its net foreign reserve assets:

1. Subscriptions to international non-monetary organizations.
2. Assets redeemable only in inconvertible currencies.
3. Assets with uses blocked or effectively restricted by issuers.
4. Allocations or cancellations of SDRs.
5. Gold reclassifications.
6. Deposits in custody (i.e., not readily available for use).

As alluded to earlier, QCB is only in charge of the foreign reserves portfolio allocated to the management of QCB monetary and exchange rate policy. Hence, reserves assets held by QCB are those allocated for the purposes of interventions in the local exchange market and other monetary-pklicy purposes. As such, QCB foreign reserves position reflects the foreign reserve source of high-powered money. Table 23 computes QCB foreign exchange reserves source end-December 2002-2004.

The QCB stock of foreign currency reserves was estimated at QR 11,860.42 million by end-2004 versus 10,169.2 million end-2003, an increase of QR 1,691.23 million or 16.63%. Such growth in the foreign reserves source of HPM across 2004 primarily reflects QCB side intervention operations in the exchange market, defending the QR peg. QCB ended up a net purchaser of US$379.00 million (the equivalent of QR 1,379.00 million). To that extent, the rise in the stock of foreign exchange reserves is a result of QCB monetary policy actions and as such is considered a monetary policy source. Other sources of the growth in the stock of foreign reserve include valuation changes; net clearings related to NAPS, and QCB net investments income. Such changes in the foreign reserves source are non-monetary-policy monetary sources.

(15) See the fifth edition of the IMF Balance of Payments Manual (BOPM5). Foreign exchange reserves of a central bank include: monetary gold, special drawing rights (SDRs), deposits at other central banks, reserve position in the IMF, foreign exchange assets (consisting of foreign currency, deposits at foreign banks, and securities), and other claims. Foreign currency deposits at local banks are included only under certain restrictive conditions. December 2004.

Table (28)

QCB Foreign Exchange Reserves End-December 2002-2004

Millions of QR

Items	2002	2003	2004	Change 04-03 Value	%
Net Foreign Assets+	**5,618.5436**	**10,623.1181**	**12,441.0575**	**1,817.9394**	**17.11**
Exclude:					
Non-Reserve Assets:	370.1087	383.8563	508.1616	80.1200	
Deposits in custody	218.4000	218.4000	291.2000		
FC Dep: L Banks)*	0.0000	0.7179	44.1853		
Share in AMF	148.4598	162.2682	169.5882		
Share In IBR&D	3.2489	3.1881	3.1881		
SDR Allocations	63.4497	70.0692	72.4797	3.1284	
Foreign Reserves+	**5,184.9852**	**10,169.1926**	**11,860.4162**	**1,691.2236**	**16.63**
(% of QCB NFA)	(92.28)	(95.73)	(95.69)	(93.03)	

Source: Computed from QCB Financial Statements, December 31st.and the accompanied breakdowns.
+ Includes one billion US$ (QR 3.64 billion) augmentation to QCB reserves in 2003, presented by the Ministry of Finance.
* Includes interest due not received.

A2. Transactions Foreign Reserves Source:

QCB foreign exchange reserves source, as computed in table 23 above, incorporate assets valuation changes due to exchange rates and/or assets' prices' fluctuations. However, due to high volatility of the USD the QR is highly volatile against major currencies; like-wise, assets' prices have been highly volatile worldwide; therefore, temporality of assets' revaluation changes. Moreover, revaluation changes are non-transactions changes that are independent from QCB monetary-policy. Although understates QCB stock of foreign currency reserves, a conservative estimate that excludes valuation changes would be more robust for our analyses. Besides, it is more consistent with evaluating changes in QCB foreign reserves for the purposes of the balance of payments,

Table 24 nets QCB foreign reserve assets' source out of relevant valuation changes. As such, transactions' changes in QCB foreign currency reserves position reflect, for the most part, the influence the monetary-policy actions exert on the foreign reserve source of the high-powered money. The stock of foreign currency reserves (net of valuation changes) reached QR 10,921.27 million by end-December 2004 versus QR 9,380.26 million end-December 2003, a growth of QR 1,541.01 million or 16.42%.

Table (29)

Net Foreign Exchange Reserve Source of the Base End 2002-2004.

Millions of QR

Items	2002	2003	2004	Change 04-03	
				Value	%
QCB Foreign Reserves	**5,184.985**	**10,169.193**	**11,860.416**	**1,691.223**	**16.63**
Revaluation Change	314.866	788.933	939.144	150.211	
QCB TR Foreign Reserves*	**4,870.119**	**9,380.260**	**10,921.273**	**1,541.013**	**16.424**
(% of QCB NFA)	(86.68)	(88.31)	(88.10)	(86.84)	

Source: Computed from table 19 and the breakdowns of QCB Financial Statements, December 31st.
* Transaction foreign Reserves.

Changes in the foreign currency reserve source of the money base owing to QCB side operations in the local foreign exchange market are immediately translated into changes in the commercial banks' current-deposits accounts at QCB, hence in their net position with QCB and in the high-powered money. Therefore, they are -citrus paribus- converted into analogous multiple changes in monetary and credit aggregates proportional to the (variable) multiplier of each. In the meantime, changes owing to valuation changes and those owing to QCB net income from investment are absorbed in the QCB revaluation reserve and general reserve, respectively, as non-monetary liabilities. Table 25 shows contributions to changes in QCB foreign reserves fund by end-2002-2004

The contribution of transactions' to changes in the total foreign exchange reserves increased significantly from 64.73% end-2003 to 91.12% by end-2004. That is a rise of 26.39 percentage points or 40.77%. Meanwhile, both the absolute and relative magnitudes of valuation changes signal their volatility. The monetary policy source to the growth in total foreign exchange reserves increased significantly from 60.84% end-2003 to 81.54% end-2004, a rise of 20.70 percentage points or 34.02%.

Table (30) Contributions to the Changes in QCB FER End-2002-2004

Millions of QR

Items	2003		2004	
	Value	%	Value	%
Net QR Sales to Local Banks	**817.8568**	**60.84**	**1,379.0125**	**81.54**
Net QR Sales Through NAPS	0.1257	0.01	-9.9708	-.59
Other Transactions*	52.1578	3.88	171.9714	10.17
Total Transactions Change in FER	**870.1403**	**64.73**	**1,541.0131**	**91.12**
Valuation Changes	474.0670	35.27	150.2110	8.88
Change in the Total FER	**1,344.2073**	**100**	**1,691.2241**	**100**
Gov. Transfer for Exch. Rate Res.	3,640.0000	-	0.0000	-

Source: QCB.
* Mostly due to QCB net investment income.

A.3. QCB Net Credit Source:

We define QMR net credit as QMR loans less QMR deposits within QMR mechanism. Likewise, net Repo credit is defined as Repo less reverse Repo. QCB net credit encompasses Net QMR credit and net Repo credit. The negative of QMR net credit (net QMR deposits) amounted to QR 485.70 million by end-December 2004 versus QR -99.00 million by end-December 2003. Repurchase transactions amounted to QR 325.00 million during 2004 vis-à-vis QR 108.00 million during 2003.

Table (31) QCB Net Credit Source of the Base End-2002-2004

Millions of QR

Transactions	2002	2003	2004	Change 04-03
QMR Net Credit	**-304.0000**	**-99.0000**	**-485.6942**	**-386.6942**
QMR Loans	00.0000	94.0000	80.0000	-14.0000
QMR Deposits	304.0000	193.0000	565.6942	372.6942
Repo Net Credit	**00.00**	**00.00**	**225.0000**	**225.0000**
Total Net Credit	**-304.0000**	**-99.0000**	**-260.6942**	**-161.6942**

QCB Financial Statements, December 31st

Yet, the aggregate Repo account recorded QR 225.0 million on the last day of 2004 versus zero balance on the last day of December 2003. Since Repo agreements inject QR liquidity into the banking system, they contribute positively to the HPM. Table 26 computes the QCB net credit source of the base end-December 2002-2004.

A.4. Other Monetary Sources:

Other monetary sources of the monetary base include non-foreign reserve assets, balances due from commercial banks (other than Repos and QMR loans), balance of the Ministry of Finance account at QCB, and the vault cash at QCB. Information contained in table 27 reveal that other monetary sources had contributed QR 185.3 million to changes in the source base end-2004 of which QR 335.4 million in foreign currency assets and QR -150.1 million in QR assets. That is QR 52.7 million or 23.1% less than the contribution of QR 238 million end-2003, of which QR 219.1 million in foreign currency assets and QR 18.9 million in QR assets.

Table (32) Other Monetary Sources of the Base: End-2002-2004

Millions of QR

Item	2002	2003	2004	Change 04-03
Foreign Currency:	**218.4000**	**219.1179**	**335.3853**	**116.2674**
Non-Reserve Deposits	218.4000	218.4000	291.2000	
Due From Loc Banks in FC*	0.0000	0.7179	44.1853	
Local Currency	**163.1733**	**18.8715**	**-150.1099**	**-168.9814**
Cash In Vault	00.1217	00.2951	00.2512	
Due from Loc Banks (in QR)*	27.9068	02.6015	18.2742	
Ministry of Finance	135.1448	15.9749	-168.6353	
Total	**381.5733**	**237.9894**	**185.2754**	**-52.7140**

Source: QCB Financial Statements, December 31st.
* Includes interest due not received.

B. Non-Monetary Sources

Non-monetary sources of the monetary base are decomposed into foreign currency assets source, local currency assets source, and capital and reserves source. Table 28 shows assets and liabilities comprising non-monetary sources of the base by end-2002-end-2004.

1. <u>Foreign Currency</u>: The foreign currency non-monetary sources include the state share in International Bank for Reconstruction and Development (IBR&D) and the Arab Monetary Fund (AMF) as assets and the current accounts of the International Monetary Fund (IMF) at QCB as liabilities. Foreign currency non-monetary sources rose from QR 161.09 million by end-2003 to QR 168.41 million end-2004, a rise of QR 7.32 million or 4.54%.

2. Local Currency: The QR non-monetary sources include QCB net fixed assets as assets and 'other items net,' except QCB capital and general reserves, as liabilities. QR source declined from QR 40.75 million by end-December 2003 to QR –53.18 million by end-December 2004.

Table (33) **Non-Monetary Source of the Base: End-2002-2004**

Millions of QR

Non-Monetary Sources	2002	2003	2004	Change 04-03
Assets	**367.4698**	**338.0765**	**267.4386**	**-70.6379**
State Share in the AMF	148.4598	162.2682	169.5882	
State Share in the IBR&D	3.2489	3.1881	3.1881	
Commemorative Coins	0.0487	0.0124	0.0114	
Net Fixed Assets	76.1991	72.8653	79.0911	
Other Assets (net)	139.5133	99.7425	15.5598	
Liabilities:	**1,938.6501**	**6,249.6310**	**6,599.5660**	**349.935**
IMF Accounts (1&2)	4.3690	4.3692	4.3694	
IBR&D Account	0.0365	0.0365	0.0365	
MIGA Account	0.1349	0.1349	0.1349	
Revaluation Reserves*	299.4309	800.7300	966.8325	
Investment Provisions	1.7999	16.3700	21.5755	
Other Provisions	68.6362	96.9355	93.1622	
Other Credits	5.0996	6.0279	4.5382	
Others	0.3831	0.5729	0.7031	
Capital	1,000.00	1,000.0000	1,000.0000	
General Res.	558.7600	4,324.4541	4,508.2137	
Total	**-1,571.1803**	**-5,911.5545**	**-6,332.1274**	**-420.5729**

Source: QCB Financial Statements, December 31st.
* Includes Gold revaluation.

3. Capital and General Reserves: QCB has been endowed with US$ 1000.00 million of capital paid up by the Ministry of Finance. The Ministry of Finance had augmented QCB foreign currency reserves with US$1.0 billion in 2003 that was added to the general reserve. QCB general reserve rose from QR 558.76 million end-2002 to QR 4324.45 million end-2003; then rose to QR 4508.21 million by end-2004. The increase of QR 183.76 or 4.25% by end-December 2004 reflects QCB net income during the year.

C. Monetary Policy Sources of the Change in HPM:

As referred to earlier, QCB monetary actions impact on the high-powered money via their influence on major monetary sources of the money base. We have distinguished changes in such monetary sources as the monetary-policy sources of changes in the base.

Monetary policy sources include changes in QCB foreign currency reserve assets that owe to QCB side operations in the local foreign exchange market; changes in QCB net credit to commercial banks due to QMR mechanism; and/or changes in the size of QCB Repos agreements. Monetary policy sources amounted to QR 1,112.12 million or 105.29% of the changes in the high-powered money by end-December 2004. Such increase is decomposed into a positive contribution of the foreign reserves source of QR 1,379.0 million, a positive contribution of the Repo agreements source of QR 225.0 million and a negative contribution of net QCB credit via formal QMR mechanism transactions of QR 485.69 million. (See table 29).

Generally, the QCB exchange market side operations contributed positively, the QCB Repo agreements contributed non-negatively, and the QMR mechanism contributed negatively to changes in the money base end-2002-end-2004. More generally, this conclusion held true throughout the three-year period. Positive contributions of QCB exchange market side operations are attributable to capital (particularly financial) net inflows. The negative contributions of QMR mechanism are explained by surpluses in primary liquidity in the banking system throughout the three-year period.

Table (34) **Monetary Policy Sources of Changes in Money Base: End-2002-2004**

Millions of QR

Source / Year	2002		2003		2004	
	Value	%	Value	%	Value	%
Changes in the HPM	**275.2719**	**100**	**705.2493**	**100**	**1,056.2425**	**100.00**
Mon-Policy Source	**191.4958**	**69.57**	**716.0340**	**101.53**	**1,112.1182**	**105.29**
For-Reserve Source*	496.6827	180.43	817.8568	115.97	1,379.0125	130.56
QMR Source	-304.0000	-110.44	-99.0000	-14.04	-485.6942	-45.98
Repo Source	00.0000	0.0	00.0000	0.0	225.0000	21.30
Net Interest**	-1.1869	-0.43	-2.8228	-0.40	-6.2001	-0.59
Non-Mon-Policy Source	**83.7761**	**30.43**	**-10.7847**	**-1.53**	**-55.8757**	**-5.29**

Source: Tables 25-27.
* Due to QCB intervention operations.
**On QMR and Repo transactions.

Section V

Basic Monetary Indicators

V.1 Expected Deposits Outflow:

The ratio of commercial banks' cash in vault to private demand deposits had declined by 0.66 percentage points or 13.27% across 2004 vis-à-vis 0.61 percentage points or 10.99% across 2003. That is, an apparent deceleration in overall expected deposits outflow, on the behalf of commercial banks, of 2.28 percentage points or 20.75% (see R(1) in table 39).

This conventionally recognized ratio does not however accurately reflect banks' expectations of deposits outflow in Qatar since it is overstated because government deposits are with the commercial banks rather than with the central bank. Therefore, the effective demand deposits base is larger than the private demand deposits base, the difference being the government demand deposits. The ratio of cash in vault to banks' total demand deposits, including government deposits, is therefore a more precise measure of the expected deposits outflow on the behalf of local banks. This ratio is computed as R(2) in the far right column of table 39.

Table (42)

Ratios of Expected Deposits Outflow 2002-2004

Period	Cash in Vault	Private Demand Deposits	Exp Dep. Out R(1)	Total Demand Deposits	Exp Dep. Out R(2)
2002	344.3959	6204.68	5.551	7,564.645	4.553
2003	451.5285	9130.20	4.945	11,019.731	4.506
2004	526.8490	12004.40	4.389	15,245.265	3.456

Source:

The ratio of banks cash in vault to total demand deposits declined by 1.05 percentage points or 23.30% across 2004 versus a decline of 0.047 percentage points or 1.03% over 2003. That is a copious deceleration in the overall expected deposits outflow on behalf of the local banks.

V.2 The Currency Ratio:

The ratio of currency circulated outside the banking system to the transaction deposits is conventionally defined as "currency ratio". This ratio indicates the tendency of the non-bank public to hold cash (fiat and coins) money. Table 40 shows the currency ratio to decline from 31% end-2002 to 23.5% end-2003 then to 21.6% by end-2004. Such time trend is consistent with the growing banking financial intermediation.

Table (43) **Currency Ratio: End-2002-2004**

Period	Currency in Circulation	Private demand Deposits	Currency Ratio
2002	1922.1014	6,204.6730	30.98%
2003	2148.4074	9,130.1270	23.53%
2004	2596.1218	12,004.4250	21.63%

The converging pattern of the currency ratio across 2002-2004 is reflected in the changing structure of money supply. The share of currency in circulation in M1 declined from 23.65% end-2002 to 19.1% end-2003, then to 17.8% by end-2004. That is, a decline of 4.6 percentage points or 19.45% across 2003 and 1.27 percentage points or 6.67% across 2004, implying increasing but converging banking intermediation across 2004. Its share in broad money M2 fell from 6.04% end-2002 to 5.77% end-2003 to rise marginally to 5.79% by end-2004. That is, a decrease of 0.27 percentage points or 4.47% across 2003 and an increase of 0.02 percentage points or 0.35% across 2004, implying a stable ratio across 2004.

While the absolute volume of currency in circulation reached an all-time-high of QR 2,596.12 million by end-2004, the reduction in the currency ratio suggests that the strong rise of 20.84% in currency circulated is proportional to the growth of 20.53% in broad money and does not show an increase in the preference for cash. Reductions in the currency ratio augment the credit creating capacity of commercial banks. Thus, tends to boost the size of the money multiplier, citrus paribus.

V.3 The Ratio of Banks' Excess Reserves:

The ratio of commercial banks' excess reserves is conventionally defined as the ratio of excess reserves of, to demand deposits with commercial banks. This ratio reveals the desired holding of excess reserves on the behalf of commercial banks. Excess reserves ratio increased from 8.49% by end-2002 to 8.81% by end- 2003 then to 10.24% end-2004 (Table 41).

Yet, conventional ratios computed in table 43 do not truly reflect the behavior of commercial banks in Qatar because government deposits are allocated to the commercial banks rather than to the central bank. A modified excess reserves ratio that incorporates the total demand deposits (including government sector deposits) would be more reflective of the behavior of commercial banks in Qatar. These computations are shown in table 42 where the ratio of excess reserves to total demand deposits grew by 6.97% across 2002, 7.30% across 2003, and 8.13% across 2004.

Table (44)

Ratios of Expected Deposits Outflow 2002-2004

Period	Current Deposits Acc.	Bank's Cash in Vault	Total Excess Reserves	Private Demand Deposits	Excess Reserves Ratio
2002	182.6262	344.3959	527.0221	6,204.6730	8.494%
2003	352.5515	451.5285	804.0800	9,130.1270	8.807%
2004	712.9690	526.8490	1,239.8180	12,004.4250	10.238%

Table (45)

Modified Excess Reserves Ratio 2002-2004

Period	Current Deposits Acc.	Bank's Cash in Vault	Total Excess Reserves	Private Demand Deposits	Excess Reserves Ratio
2002	182.6262	344.3959	527.0221	7,564.645	6.97%
2003	352.5515	451.5285	804.0800	11,019.731	7.30%
2004	712.9690	526.8490	1,239.8180	15,245.265	8.13%

Generally, the rise in the excess reserves ratio reflects prudential behavior on behalf of commercial banks and curtails their credit creating capacity. Thus, ceteris paribus, tends to reduce the size of money multipliers. Nonetheless, our computations are more of a reflection of the state of excess liquidity prevailed over the last few years. On other hand, volatility of the ratio of excess reserves is a major source of time variation in money multipliers over the short-run.

V.4 The Ratio of Nontransactions Deposits:

In the more general case, non-transactions deposits are comprised mainly of time and savings deposits in national currencies where deposits in foreign currencies comprise small or even negligible fraction of quasi money. Yet, in the case of ultra-small-excessively-open GCC economies, deposits in foreign currencies with local commercial banks constitute a significant portion of quasi money (the ratio in Qatar is 27.96%, 30.79%, and 31.87% by end-2002, 2003, and 2004, respectively). However, in Qatar foreign currency demand deposits are rather nontransactions deposits. Thus, Quasi money is entirely comprised of nontransactions deposits.

Hence, a conventionally defined ratio of nontransactions deposits depicts the ratio of quasi money to transactions deposits in the Qatari banking system. This ratio indicates the desire of non-bank public to hold nontransactions deposits relative to transactions deposits. Changes in the nontransactions deposits ratio have two important implications for the broad money supply M2:

1. Given QCB imposes the RRR for nontransactions deposits, this contributes to the stability of the M2 multiplier due to reducing the relative input of the excess reserves ratio in determining the size of the M2 multiplier.
2. Changes in the nontransactions deposits ratio affect the size of the M2 multiplier in the same way, hence offsetting the effects of similar changes in the ratio of excess reserves and or the currency ratio.

Computations in table 43 indicate that the ratio of quasi money to demand deposits declined from 3.82 end-2002 to 2.84 end-2003, then to 2.52 by end-2004. This converging declining pattern of nontransactions deposits ratio has been reflected in the changing structure of the money supply. The share of quasi money in M2 had declined from 74.46% by end-2002 to 69.70% end-2003, then to 67.46% by end-2004. That is, a fall of 4.76 percentage points (or 6.39%) and 2.24 percentage points (or 3.21%) end-2003 and end-2004, respectively.

Table (46) **Ratio of Nontransactions Deposits: 2002-2004**

Period	Quasi Money	Private demand Deposits	Ratio of Notransactions Deposits
2002	23,687.228	6,204.6730	381.76%
2003	25,945.459	9,130.1270	284.17%
2004	30,266.528	12,004.4250	252.13%

V.5 The QCB Money Multipliers:

The money multiplier is a factor by which high-powered money is translated into money. Broader money multipliers in an economy are influenced by changes in the ratio of required reserves set by the central bank, the currency ratio, the excess reserves ratio, and the ratio of nontransactions deposits. The narrow M1 multiplier is only influenced by the first three ratios.

Because QCB applies the RRR at the same rate to all types of bank deposits, government deposits included, the high-powered money is influenced positively and evenly by changes in the government deposits. Therefore, standard computations of money multipliers, utilizing standard formula, overstate directly computed parallel multipliers. On the other hand, since government deposits are not included in the QCB definitions of the monetary aggregates, direct computation of a money multiplier may underestimate the actual multiplier had the monetary base been netted-out of the required reserves against government deposits at the commercial banks.

V.5.1 The Narrow Money Multiplier:

As just indicated, there are two factors that tend to exaggerate the M1 multiplier as traditionally estimated by the standard formula in relation to that measured by the ratio of QCB M1 to QCB M0[(23)]:

(i) QCB imposes required reserves ratio on all types of deposits at a flat rate; and

(ii) Government deposits are allocated to local banks rather than to the central bank; thus are non-sterilized.

Citrus-paribus, by increasing the size of the monetary base, each and both factors tend to reduce the size of the narrowly defined money multiplier QCB-M1/QCB-M0 versus its size computed using magnitudes of the orthodox components. Put it another way, the textbook formula for the narrow money multiplier overstates the standard M1/Mo multiplier as shown in table 44.

Table (47) **Computing M1 Multiplier: End-Year, 2002-2004**

Period	Currency Ratio: c	Excess RR: e	Required RR: r	c+e+r	Formula m1	M1/M0
2002	30.97%	8.49%	2.75%	42.21%	3.10	2.20
2003	23.52%	8.81%	2.75%	35.08%	3.52	2.56
2004	21.63%	10.24%	2.75%	34.62%	3.51	2.68

(23) The standard formula gives the M1 multiplier as: $m1 = (1+c)/(c + e + r)$ where c is the currency ratio, e is the ratio of excess reserves, r is the RRR, and m1 is the multiplier.

Computations in table 44 indicate that the size of the standard narrow M1 multiplier (M1/M0) increased from 2.20 end-2002 to 2.56 end-2003, then to 2.68 end-2004. Such evolution indicates a growth of 4.69% across 2004 vis-à-vis 16.36% across 2003. Thus, demonstrates that, although growing, growth in the M1 multiplier decelerated significantly over the last year. Increases in the size of the M1 multiplier are explained by the reductions in the currency ratio that seems to offset the negative effect of the increase in the ratio of excess reserves (however are computed).

Yet, it should be noted that government deposits are not included in QCB defined narrow money. It therefore follows that standard direct computation of the narrow money multiplier (dividing QCB narrow money into QCB monetary base) understates the money multiplier, compared to the case where government deposits are sterilized.

V.5.2 The Broad Money Multiplier:

The fact that QCB applies the RRR at the same flat rate to all types of customers' deposits results in reducing the size of broad money multiplier than otherwise (where RRR is applied to nontransaction deposits at lower rate than demand deposits). Likewise, allocation of the government deposits to commercial banks rather than to QCB produces similar effect. Ceteris paribus, by increasing size of the money base, each and both factors tend to reduce the size of the directly computed M2 multiplier vis-à-vis computations using the magnitudes of its orthodox components[24]. Put it another way, the standard textbook formula for the broad money multiplier overstates the size of M2 money multiplier in the Qatari economy. This is evidence from computations in table 45.

Yet, it should be noted that government deposits are not included in QCB defined broad money. It therefore follows that standard direct

Table (46) **Computing M2 Multiplier: End-Year, 2002-2004**

Period	Currency Ratio: c	Excess RR: e	Required RR: r	Ratio of NTD:n	c+e+ r (1+n)	Formula m1	M2/M0
2002	30.97%	8.49%	381.76%	0.527	0.527	9.729	8.617
2003	23.52%	8.81%	284.17%	0.429	0.429	9.503	8.466
2004	21.63%	10.24%	252.13%	0.415	0.415	9.006	8.228

(24) The standard formula gives the M2 multiplier as: m2= (1+c+n)/(c + e + r + r(1+77) where c is the currency ratio, e is the ratio of excess reserves, r is the RRR, n is the ratio of nontransactions deposits, rn is the RRR for nontransactions deposits, and m2 is the multiplier.

computation of the broad money multiplier (dividing broad money into the monetary base) understates the money multiplier compared to the case where government deposits are sterilized.

Computations in table 45 indicate that the size of broad money M2 multiplier is smaller than the conventional formula computed M2 multiplier. The multiplier declined slightly from 8.62 by end-2002 to 8.47 end-2003 then to 8.23 end-2004. Such evolution demonstrates that, though increasingly declining over the last two years, the multiplier had remained relatively stable. The decrease in M2 multiplier of 2.83% across 2004 is explained by the falling ratio of nontransactions deposits -reinforced by the rise in excess reserves ratio- that over compensated the effect of the declining currency ratio.

V.6 Liquidity Preference Ratio

The ratio of liquidity preference is conventionally defined as the ratio of the narrow to the broad measure of the money stock. The ratio of liquidity preference in the economy of Qatar is therefore given by M1/M2 as defined by QCB. The liquidity preference ratio increased from 25.54% by end-2002 to 30.30% by end-2003, then increased to 32.54% by end 2004 (Table 46). Such growth comes in line with the growth in transactions demand for money owing to rising nominal wealth due to the considerable increase in assets prices and significant increase in income and expenditures due to rapidly expanding economic activities over the contemporaneous oil price cycle.

Table (47)

Liquidity Preference Ratio
2002-2004

Period	Narrow Money M1	Domestic Liquidity M2	Ratio of Liquidity Preference
2002	8,126.774	31,814.002	25.545%
2003	11,278.532	37,223.991	30.299%
2004	14,600.547	44,867.075	32.542%

V.7 The Base Cover :

The back up of the high-powered-money by hard currency assets is evident from the share of net foreign assets in the source base. The base cover is given by the ratio of QCB net monetary foreign currency assets to the monetary base. Computations in table 47 reveal that the base cover rose from 148.1% end-2002 to 237.86% end-2003 then declined to 224.18% by end-2004.

The end-2003 peak owes to the augmentation of the QCB foreign exchange reserves by the amount of one billion US dollars paid by the government in support of the QR exchange rate fund. Though the base cover declined by 13.68 percentage points or 5.75% end-2004, it remained firmly high.

Table (48) **The Monetary Base Cover 2002-2004**

Period	QCB Net Monetary Foreign Assets	Monetary Base (HPM)	Base Cover
2002	5,466.8349	3,691.378	148.097%
2003	10,457.6618	4,396.627	237.856%
2004	12,224.0959	5,452.870	224.177%

V.8 The Currency Cover :

The currency cover is measured by the ratio of QCB net monetary foreign assets to currency issued. Computations in table 48 show that the currency cover increased from 241.19% by end-2002 to 402.18% by end-2003, then declined to 391.4% by end-2004. The augmentation of QCB foreign exchange reserves by one billion US dollar in 2003 explains the spectacular increase in the currency cover by the year-end.

Table (49) **The Currency Cover 2002-2004**

Period	QCB Net Monetary Foreign Assets	Currency Issued	Currency Cover
2002	5,466.8349	2,266.619	241.189%
2003	10,457.6618	2,600.231	402.182%
2004	12,224.0959	3,123.222	391.394%

Though the currency cover declined by 10.8 percentage points or 2.68% end-2004, it remained well above (almost four folds) the benchmark of 100% determined by QCB Statute, Decree Law No. 15 of the year 1993 in item No. 2 of its article No. 31.

V.9 M2/GDP Ratios:

Broad money M2 grew at the rate of 17% across 2003 while grew at 20.53% across 2004. Meanwhile, the nominal GDP grew at the rate of 20.27% across 2003 and 20.04% across 2004. Hence, the growth in domestic liquidity was broadly consistent with growth in overall GDP. Yet, the growth in domestic liquidity had been far above the growth of 10.08% and 14.8% in the non-oil-non-gas GDP across 2003-2004 respectively. That is, domestic liquidity had grown faster than the growing requirement of the expanding non-oil-non-gas sector of the economy.

Although had been slightly declining, the ratio of broad money to nominal GDP had been fairly stable registering 44.35% end-2002, 43.15% end-2003, and 43.32% end-2004. Meanwhile, the ratio of broad money to nominal non-oil-non-gas GDP increased from 102.57% by end-2002 to 109.02% by end-2003 then increased to 114.46% by end-2004 (Table 49). Such speedy growth in domestic liquidity relative to the growth in non-oil-non-gas sectors signals possible inflationary pressures.

Table (50)

Ratios of Domestic Liquidity to GDP
2002-2004

Period	M2	GDP	NO-GDP*	M2/GDP %	M2/NOGDP %
2002	31,814.00	071,733.00	31,016.00	44.35	102.57
2003	37,223.99	086,273.00	34,143.00	43.15	109.02
2004	44,867.07	103,563.00	39,198.00	43.32	114.46

Source: * QCB' Quarterly Statistical Bulletin, Vol. 24, No. 1.

V.10 Monetary Dollarization:

Dollarization is the holding by residents of a significant share of their assets in the form of foreign-currency-denominated assets. Monetary dollarization (dollarization of the monetary assets) is a phenomenon of partial financial dollarization evidenced by high ratio of foreign currency deposits to the total deposits with local depository institutions. Monetary dollarization is rather partial and limited within normal assets substitution phenomenon in the Qatari economy. Table 50 gives ratios of foreign currency to total deposits by year-end 2002-2004.

Table (51)

Financial Dollarization
End-December 2002-2004

Period	Total Private Com. Banks Deposits	Financial Dollarization	
		Foreign Currency Deposits	% of Total Deposits
2002	29,891.92	5,622.38	18.81
2003	35,075.53	7,987.36	22.77
2004	42,270.95	9,645.70	22.82

Computations in table 50 indicate that the ratio of private foreign currency deposits to total private deposits increased from 18.81% end-2002 to 22.77% end-2003, then increased to 22.82% by end-2004. Such path of decelerating increase seems to reveal a weakly widening, but converging, partial dollarization phenomenon. Yet, such ratio magnitudes seem fairly moderate given the openness of capital and financial accounts of the balance of payments (review table 51).

Table (52) **Average Foreign Currency Deposits to Total Deposits (%).**

Regions	# of Countries	1998	1999	2000	2001
South America	8	49.4	53.2	54.0	55.9
Transition Econ.	26	43.5	44.3	46.9	47.7
Middle East	7	37.7	37.5	38.2	41.9
Africa	14	27.8	28.9	32.7	33.2
Asia	13	26.8	28.8	28.7	28.2
Central America & Mexico	7	22.0	22.1	22.5	24.7
Caribbean	10	06.8	06.7	06.1	06.2
Industrial Countries	14	07.5	06.7	07.0	06.6

Source: IMF occasional Paper 230, Financial Stability in Dollarized Economies, Table I, P. 2.

V.11 Dollar Intermediation:

Dollar intermediation is echoed by the ratio of commercial banks' foreign assets to their domestic deposits in foreign currency. The higher the ratio is, the less is the degree of dollar intermediation in an economy. Table 52 computes the ratio end-2002-2004.

Table (53) **Dollar Intermediation End-December 2002-2004**

Period	Foreign Currency Deposits	Dollar Intermediation	
		Banks' Net For. Assets	% of For. Cur. D.
2002	5,622.38	12,266.00	218.16
2003	7,987.36	15,361.00	192.32
2004	9,645.70	19,587.20	203.07

The ratio of commercial banks' foreign assets to domestic deposits in foreign currency declined from 218.16% end-2002 to 192.32% end-2003 to rise to 203.07% end-2004. Such swinging high ratio indicates that the

(24) Commercial banks are the only depository institutions in Qatar.

local foreign currency funding is mainly held abroad rather than loaned-out domestically. Therefore, reflects a limited scope phenomenon of dollar intermediation.

The phenomena of dollarization and dollar intermediation have important implication for financial stability in an economy. When financial dollarization is allowed to spread, it might involve vital trade-offs between the development and stability of the financial sector. Financial dollarization increases financial vulnerabilities and risks for the financial sector (such as posing limitations on the central bank's lender-of-last-resort functions or additional restraints on liquidity management by banks, owing to liquidity and solvency risks). The experience of Latin American countries suggest that banking crises or near crises in this region have been related to high degree of dollarization of the economy. Evidently, the phenomena of monetary/financial dollarization and/or dollar intermediation are of limited scope in Qatar. The Qatari economy does not seem dollarization-prone. Yet, the phenomena may gain momentum after the establishment of the Qatar Financial Center.

Section VI
Domestic Price Levels

Three sources of inflation could be recognized in the ultra-small ultra-open economy of Qatar:

1. Imported inflation, passing through QR exchange rate.

2. Expansionary economic policies (fiscal and/or monetary).

3. Local market participants' inflationary expectations.

Imported inflation can arise due to higher international prices for imports, higher prices for import substitutes, and/or depreciating national currency. Published empirical work on GCC economies suggests imported inflation and money growth as major sources of domestic inflation. Thanks to the highly credible fixed parity between the QR and USD that anchored inflation expectations to inflation in the anchor country of the USA. Therefore, encouraged local market participants to anticipate lower inflation rates and set their prices accordingly. Evidently, Qatar recorded among the lowest inflation rates within emerging market economies across 1999-2001.

VI.1 The US Dollar and Imported Inflation:

Since imports are non-competitive in the local markets, domestic prices of imported commodities are subject to complete exchange rate pass-through. Hence, changes in domestic prices of imported merchandise are entirely explained by changes in their foreign price and/or in the relevant exchange rates(25). Domestic prices are, therefore very sensitive to changes in the exchange values of the QR against currencies of Qatar major trading partners.

Floating with the strong US dollar, the QR had appreciated against currencies of major Qatar trading partners other than US helping bring imported inflation under control, especially during the 'new economy boom' years. Nevertheless, the exchange value of the US dollar has been falling since peaked early 2002. Floating with the weakening USD, QR continued depreciating against other major currencies than the USD across 2003-2004. Since Qatar depends heavily on imports to satisfy the demand for both the consumers and producers commodities, persistent depreciation of QR against currencies of Qatar major trading partners

(25) Review section IV.2.5 of this Chapter.

impacts directly on the domestic prices of tradables. Steady recoil of the US dollar would therefore result in lifting up imported inflation. Permanency of high oil prices would reinforce such effect via heaving production costs and hence raise foreign prices.

VI.2 Money Growth and Inflation:

On the one hand, geopolitical conditions had deteriorated in the Arabland, and the Arabian Gulf in particular, after September the eleventh and the invasion of Afghanistan and Iraq. Moreover the environment of high political risks and vanishing security for Arabs' and/or Moslems' investments in the US and most western countries presented "push factors" for GCC investment. In the meantime, the status of inevitable political stability and robustly growing economy Qatar has been enjoying presented strong "pull factors" that attracted the Qatari and non-Qatari portfolio capitals reluctant to outflow and/or flowing back home. Under QCB highly credible exchange rate peg, net financial capital inflows impact positively on the money base and domestic liquidity.

On the other hand, coupled with the rising oil and gas production and exports, escalating oil prices resulted in higher government foreign currency proceeds and higher government expenditures. Since the government must sell a portion of its foreign exchange revenues in order to finance public spending programs, domestic government expenditures impact positively on the monetary base and domestic liquidity.

Furthermore, through the fixed QR exchange rate against the US dollar, QCB had imported the US FED highly stimulative monetary policy stance up until June 2004, then the gradual removal of the monetary policy stimulus throughout the second half of the year.

In a nutshell, the QCB money base grew by 19.10% and 24.02%, while domestic liquidity grew by 17.0% and 20.53% across 2003 and 2004, respectively. Ceteris paribus, expansionary fiscal policy and/or monetary policy stance result in higher aggregate demand and higher prices.

VI.3 The Booming Assets Markets:

As inflation in tradables is largely attributable to the depreciation of the US dollar against other currencies of Qatar major trading partners (particularly the euro), inflation in non-tradables is the legacy of the fiscal and monetary corollary of the booming oil and gas sector(26). Due to the narrowness of the production base and the lack of non-oil-non-gas well-developed-well-diversified real sector, ample excess liquidity was channeled to viable investment outlets in the real estate and stock markets.

On the one hand, a major portion of excess liquidity was routed to shares trading in the Doha stock exchange. Growth in the stock market indicators had been phenomenal across 2003-2004. On the other hand, although the Dutch-Disease is not a characteristic of the Qatari economy (due to high supply elasticity of imported labor), supply shortages in residential housing twined with the ongoing boom in the oil and gas sector produced a high boom in the real estates sector. Attracted by the high positive expectations of yields on real estate investments, a significant portion of excess liquidity was channeled into real estate trading activities and the housing and construction industry. Such buoyant expectations have been generated by visible excess demand in the residential housing and constructions markets due to:

1. Sizeable supply shortages in residential housing due to the demolition of large number of homes and residential compounds in a number of sections of the capital city within newly executed infrastructure and construction plans to renovate the city.
2. Increasing demand for residential units owing to increasing numbers of new comers expatriates working in the new projects.

As alludedt to earlier, the sharply rising prices of non-tradables have been spilling over into the general economy. This was evidenced by an increase in the average CPI inflation from 2.26% in 2003 to 6.80% over 2004 (almost four folds). That is, an acceleration of 4.54 percentage points or 200.9%. However, thanks to preemptive QCB prudential regulations relating to bank credit for purposes of financing real estate and stock market investment inflation, stood-still contained within the one digit. Hitherto, although the QCB measures were tightened, growth in the monetary aggregates and bank credit extended to the private sector remained high. Risks of inflationary pressure and asset markets overvaluation remained, therefore, alarming.

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(26) See section IV of chapter 3 of the QCB 'Twenty Seventh Annual Report 2003'. The Euroland is the major trading partner of Qatar.

VI.4 The Consumer Price Index (CPI)[27] :

Overall consumer prices rose notably more in 2004 than they did in 2003, where sharp increases in housing rent continued to give reason for most of the step-up. The year average price index for consumers' consumption expenditures (CPI) grew by 6.97 points or 6.8% in 2004 versus a growth of 2.27 points or 2.26% in 2003.

The rise in the CPI during 2004 was largest in the early months: the quarterly average CPI rose from 103.06 in the fourth quarter 2003 to 107.72 in the first quarter 2004. That is, a quarter on quarter inflation of 4.52% (an annual rate of 19.34%). Average quarterly CPI inflation decelerated to 0.96% and 0.90% (annual rates of 3.40% and 3.65%, respectively) in the second and third quarters, respectively. The CPI picked up to 1.82% in the fourth quarter (at an annual rate of 7.48%).

The evolution of the CPI inflation was most influenced by growth in the price index for the category 'Rent, Fuel, and Energy' (CPIR). The rise in CPIR during 2004 was largest during the early months: the quarterly average CPIR increased from 120.72 in the fourth quarter of 2003 to 133.75 in the first quarter of 2004; a quarterly inflation of 10.79% (an annual rate of 50.68%). Average quarterly CPIR inflation decelerated to 3.41, 2.33, and 2.18 percent (annual rates of 14.35%, 9.64%, and 9.02%, respectively) for the second, the third, and the fourth quarter, respectively.

Average non-rent consumers' price index (NRCPI), computed as CPI excluding CPIR, rose from 98.49 points in the fourth quarter of 2003 to 100.92 points in the first of quarter of 2004, a growth of 2.43 points or 2.47%. That is, annual inflation rate of 10.25% compared to 19.34% for overall CPI and 50.68 for CPIR. Average quarterly NRCPI inflation decelerated to 0.10% (an annual rate of 0.40%) in the second quarter, then increased to 0.39, and 1.70% (annual rates of 1.57%, and 6.98%) for third and fourth quarter, respectively.

(27) Reviw table 26 Chapter One.

Section VII

Developments of Bank Supervision Procedures

Qatar Central Bank is resolute to ascertain the soundness and the financial reputation of local commercial banks in accordance with international liquidity and capital adequacy standards, along with assessing adequacy and efficiency of their internal control system. Thus, QCB uses several standard criteria of financial soundness of local commercial banks, including capital adequacy, asset quality, liquidity sufficiency, sensitivity to market risk, and earnings and profitability measure[(28)].

Within framework of its role in the supervision and oversight of banks and money exchangers, QCB continued throughout 2004 to ascertain the soundness of financial positions of these units, their compliance with supervisory instructions, and their adherence to sound banking and financial practices. Endeavors in this regard included alternative methods of supervision and inspection along lines of the latest global developments and advances in regulatory systems. In its steady endeavor to enhance its role in supervision and oversight of the banking system QCB issued a large number of circulars, the most important of which are:

1. Circulars no. 4/2004, 74/2004, and 90/2004 concerning QCB instructions related to credit concentration.
2. Circular no. 7/2004 on computing capital and reserves ratio to gross assets.
3. Circular no. 17/2004 concerning increasing banks' capital (Tier 1) and conditions for including subordinated loans.
4. Circulars no. 18/2004 and 31/2004 concerning rules for bank stockbrokerage services in the Doha stock exchange.
5. Circular no. 29/2004 on adjusting ceilings for credit/deposits and overdraft/credit ratios.
6. Circular no. 32/2004 on provisions for non-performing loans at commercial banks.

8. Circular no. 44/2004 on risk management.
9. Circular no. 58/2004 concerning QMR transactions.

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(28) For detailed treatment of the subject, see Chapter Four of this report.

10. Circular no. 61/2004 on QCB procedures for licensing new investment funds.

11. Circular no. 63/2004 with reference to banks' credit for the purposes of financing purchases of newly issued shares.

12. Circular no. a propos the introduction of Islamic financial services on the behalf of commercial banks.

4

Chapter Four

Banking & Financial Sector

The Banking and Financial System For The Year 2004

QCB

Insurance Companies

Company	Established
Qatar Insurance	1964
Qatar General Insurance & Reinsurance	1978
Al Khaleeg Insurance	1978
Qatar Islamic Insurance	1994
Doha Insurance	2001
Atlas Insurance Company	1966
Arabian Insurance Company	1966
Lebanon-Suisse Insurance Company	1966
The National Insurance Co. of Egypt	1969

Commercial Banks

Br.	Bank	Established
23	Qatar National Bank	1965
12	Commercial bank of Qatar	1975
12	Doha Bank	1979
7	Qatar Islamic Bank	1983
7	Al-Ahli Bank of Qatar	1984
5	Qatar International Islamic Bank	1991
-	International Bank of Qatar	2000
2	Arab Bank Limited	1957
1	Mashreq Bank	1971
3	HSBC Bank Middle East	1954
-	United Bank limited	1970
-	Saderat Iran Bank	1970
-	P.N.B. Paribas	1973
1	Stantard Chartered Bank	1950

Specialized Banks	Established
Qatar Industrial Development Bank	1997

Investment Companies	Established
Qatar Ladies Investment Company	1999
The International Investor	2000
Investment House	2001

Financing Companies	Established
First Finance	2000

Br.	Exchange Houses	Established
2	Al-Fardan Exchange Company	1970
9	Lary Exchange Company	1975
9	Trust Exchange Company	1976
2	Gulf Exchange Company	1977
-	Al-Zaman Exchange Company	1978
-	Doha Exchange Company	1979
-	Global Exchange Company	1979
-	National Exchange Company	1979
-	Al Mana Exchange Company	1979
-	Eastern Exchange Establishment	1979
-	City Exchange Company	1979
2	Habib Qatar International Exchange Ltd. Co.	1978
-	Arabian Exchange Company	1979
-	Islamic Exchange Company	1979
-	Al Sadd Exchange Company	1997
-	Union Exchange Company	1998
1	Future Exchange	2004
-	Al Jazera Exchange	2004
-	LoSail Exchange	2004

Commercial banks

The aggregated balance sheet of commercial banks for the year 2004 revealed that the banks continued to achieve high improvement in their financial positions in the last two years. This was due to the banks expanding their financial activities. Those were mainly concentrated in extending credit facilities and accepting deposits. The aggregated balance sheet rose during the year 2004 by QR 15909 million or 21% to reach QR 91673 million, vis-à-vis an increase by 13408 million or 21.5% at the end of 2003.

Table (47)

The Aggregated Balance Sheet of Commercial Banks

Millions of QR

Items	2000	2001	2002	2003	2004	Changes 2003-2004	
						Value	%
Cash and balances with QCB	1382	1732	2115	2492	3462	970	38.9
Collectable Cheques	54	73	78	179	124	-55	-30.8
Financial Assets Portfolio	7664	8888	9901	11480	13957	2477	21.6
Due From banks & Financial Instit.	10401	9726	12170	15132	20640	5508	36.4
Total Credit Facilities	29091	35466	36175	43730	49411	5681	13.0
In Qatar	27890	33981	35928	43289	48222	4933	11.4
Abroad	1201	1485	247	441	1189	748	169.6
long term investments	-	-	650	1065	2107	1042	97.8
Other assets	1372	1208	1267	1686	1973	287	17.0
Total Assets = Liabilities	**49964**	**57092**	**62356**	**75764**	**91673**	**15909**	**21.0**
Due to Qatar Central Bank	140	79	22	98	339	241	246.0
Due to banks and financial Instit.	2675	2633	3062	5538	9339	3801	68.6
Customers' deposits	36345	42518	45770	52964	60799	7835	14.8
Provisions	2294	3016	3688	3916	3578	-338	-8.6
Other liabilities	2400	2384	2691	4558	4731	173	3.8
Shareholders equity	6110	6463	7123	8690	12887	4197	48.3
Memoranda Accounts	**16243**	**24883**	**23638**	**38845**	**53072**	**14227**	**36.6**

The most important developments on both the assets and liabilities sides of the aggregated balance sheet of the commercial banks are addressed in the following:

Assets:

On the assets side the increase reflected a rise in credit facilities by QR 5681 million or 13%; balances due from banks and financial institutions by QR 5508 million or 36.4% (of which, an increase of QR 5458 million in balances at banks abroad); financial securities and long term investments by QR 2477 million and QR1042 million or 21.6% and 97.8% respectively.

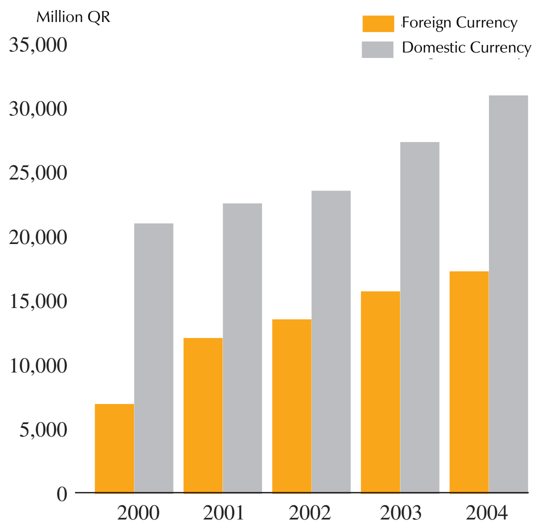
The following is a brief elaboration of developments in main items on the assets side.

1. Domestic credit facilities:

Domestic credits facilities increased by QR 4933 million or 11.4% at the end of 2004, vis-à-vis a higher increase by QR 7361 million or 20.5% at the end of 2003. Consequently, the relative importance of domestic credit facilities to total assets decreased to 52.6% at the end of 2004, from 57.1% at the end of 2003.

A. Distribution of domestic credit facilities by currency type:

Distribution of domestic credit facilities by currency revealed a rise of QR 3880 million or 14.3% in local currency at the end of 2004, compared to QR 4063 million or 17.7% at the of 2003. Whereas, credit facilities in foreign currencies increased by only QR 1053 million or 6.5%, vis-à-vis a higher increase by QR 3298 million or 25.5% at the end of 2003. That owed partially to the decrease of government loans in foreign currencies by QR 1160 million during the year 2004.



On the other hands, credit facilities in local currency continued to comprise the major proportion of domestic credit facilities by 64.1%, equivalent of QR 30938 million at the end of 2004, vis-à-vis 62.5%, equivalent of QR 27058 million at the end of 2003.

Table (48)

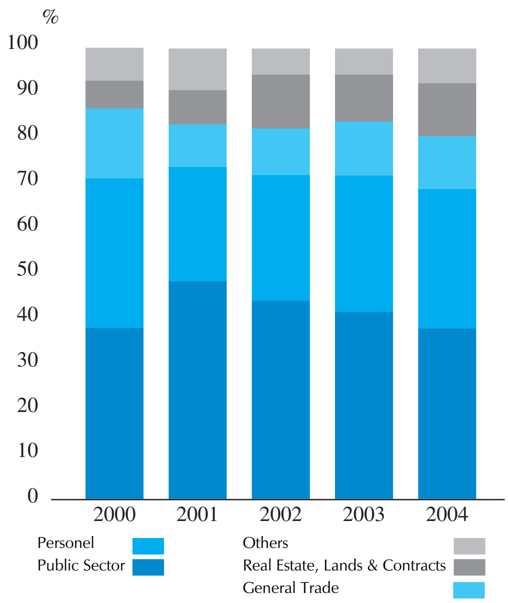
The Distribution of Domestic Credits by Type of Currency

Millions of QR

Items	2000	2001	2002	2003	2004	Changes 03-2004 Value	%
In local currency	21012	22368	22995	27058	30938	3880	14.3
In foreign currencies	6878	11613	12933	16231	17284	1053	6.5
Total domestic credits	**27890**	**33981**	**35928**	**43289**	**48222**	**4933**	**11.4**
Domestic credits / Total Assets	**55.8%**	**59.5%**	**57.6%**	**57.1%**	**52.6%**	**-**	**-**

B. Distribution of domestic credit facilities by economic sectors:

Breakdown of domestic credits facilities by economic sectors revealed that credit facilities extended to private sectors were increased by QR 6395 million or 27.4%, to reach QR 29753 million at the end of 2004, comprising 61.7% of total domestic credits. This is to be compared to an increase of QR 4261 million or 22.3% at the end of 2003.



The increase in credit facilities to private sectors accounted for 129.6% of the rise in domestic credit facilities during the year 2004. Most of this increase was allocated to the following items:

- Loans granted to personal were increased by QR 2582 million or 22.4% to reach QR 14085 million, comprising 29.2% of total domestic credit facilities.
- Loans to real estate sector were noticeably increased by QR 2160 million or 114.1% to reach QR4054 million at the end of 2004. Consequently, the share of credit facilities of real state to total domestic credits were increased to 8.4% at the end of 2004, compared with 4.3% at the end of 2003. Such increase is due to the currently witnessed expansion in the residential and commercial projects in Qatar.
- Credit facilities extended to trade sector were increased by QR 584 million or 10.6%.
- Credit facilities extended to industrial sector were increased by QR 295 million or 42.5%.
- Credit facilities extended to services and construction sectors were increased by QR 519 million or 27.8% , and QR 224 million or 15.6% respectively.

On the other hands, credit facilities extended to public sector recorded a decrease by QR 1462 million or 7.3% at the end of 2004. this was due to the following:

- Credit facilities to government recorded a noticeable decrease by QR 2479 million or 15.2 to reached QR 13851 million at the end of 2004. Consequently, government retreated to the second position next to personal in term of its share of the domestic credit facilities.
- Credit facilities extended to government institutions were increased by QR 227 million or 10.7%, to reach QR 2349 million at the end of 2004.
- Credit facilities extended to semi- government institutions recorded an increase by QR 791 million or 53.4%, to reach QR 2270 million at the end of 2004, compared with an increase of QR 514 million or 53.3 at the end of 2003.

Table (49)

Distribution of Domestic Credits by Economic Sectors

Millions of QR

Items	2000	2001	2002	2003	2004	Changes 03-2004	
						Value	%
Public Sector	**10661**	**16530**	**16832**	**19931**	**18470**	**-1461**	**-7.3**
Government	10066	15096	13930	16330	13851	-2479	-15.2
Gov. Institutions	306	1198	1937	2122	2349	227	10.7
Semi Gov. Institutions	289	236	965	1479	2270	791	53.5
Private Sector	**17230**	**17451**	**19097**	**23358**	**29753**	**6395**	**27.4**
General trade	4507	4047	4722	5532	6116	584	10.6
Industry	397	577	898	693	988	295	42.6
Construction	733	718	1452	1434	1658	224	15.6
Real Estat	487	415	1181	1894	4054	2160	114.0
Personnel	9181	8882	9075	11503	14085	2582	22.4
Services	489	1071	1389	1865	2384	519	27.8
Others Sector	1436	1741	380	437	468	31	7.1
Total domestic credits Facilities	**27891**	**33981**	**35929**	**43289**	**48223**	**4934**	**11.4**

2. Portfolio of financial investments:

Table ( ) indicates that portfolio of financial investments with commercial banks recorded a noticeable increase of QR 2477 million or 21.6%, to reach QR 13957.1 million at the end of 2004, comprising 15.2% of total assets. The increase in financial investments portfolio is decomposed into:

- Domestic financial investments were increased by QR 1734.7 million or 25.2%, comprising 70.0% of total financial portfolio s' increase. The largest proportion of the increase in the domestic financial investments owed to the revaluation of the tradable financial securities at their fair value according to the criteria no. 39 of the international accounting standards.
- Foreign securities were increased by QR 742.4 million or 16.2%, to reach QR 5334.4 million at the end of 2004, comprising 38.2% of total financial investments portfolio.

Table (50) **Financial Investments Portfolio**

Millions of QR

Items	2002	2003	2004	Changes 03-2004 Value	Changes 03-2004 %
Domestic Financial Assets	**7224**	**6888**	**8622.7**	**1734.7**	**25.2**
Government Securities	6452	5066	5116.8	50.8	1.0
Shares	772	1822	3505.9	1683.9	92.4
Foreign Financial Assets	**2677**	**4592**	**5334.4**	**742.4**	**16.2**
Government Securities	1800	3461	3949.9	488.9	14.1
Other Bonds	656	905	1300.1	395.1	43.7
Shares	51	36	45	9	25.0
Others	170	190	39.4	-150.6	-79.3
Total Financial Assets	**9901**	**11480**	**13957.1**	**2477.1**	**21.6**
Financial assets / Total Assets	**15.9%**	**15.2%**	**15.2%**	**-**	**-**

3. Cash assets:

Cash and balances with QCB amounted to QR 3462 million at the end of 2004 vis-à-vis QR 2492 million at the end of 2003. With an increase of QR 970 million or 38.9%, against QR 377 million or 17.8% at the end of the previous year. As a result, the ratio of cash assets to total assets rose from 3.3% at the end of 2003, to 3.8% at the end of 2004.

The increase in cash assets was mainly ascribed to a rise in excess reserves by QR 712 million or 132.1%, comprising 73.4% of total increase in the cash assets at the end of 2004.

Cash Assets

Table (51)

Millions of QR

Items	2000	2001	2002	2003	2004	Changes 03-2004 Value	Changes 03-2004 %
Cash	**320**	**361**	**393**	**509**	**594**	**85**	**16.7**
Balances with Qatar Central Bank	**1062**	**1371**	**1723**	**1983**	**2868**	**885**	**44.6**
Required reserves	997	1141	1242	1444	1617	173	12.0
Excess reserves	65	230	481	539	1251	712	132.1
Total Cash Assets	**1382**	**1732**	**2116**	**2492**	**3462**	**970**	**38.9**
Cash assets / total Assets (%)	**2.8%**	**3.0%**	**3.4%**	**3.3%**	**3.8%**	**-**	**-**

Liabilities:

On the liabilities side, the increase was mainly ascribed to a rise in customers' deposits by QR 7835 million or 14.8%, shareholders' equities by QR 4197 million or 48.3%, and balances due to banks and financial institutions by QR3801 million OR 68.6%. The rise was offset by a decrease in provisions by QR 336 million or 8.6%, this was due to the commercial banks had written off a proportion of bad debts during the year 2004.

The most important developments on the liabilities side are briefly elaborated as follows:

1. Customers' deposits:

Customers' deposits grew by QR 7835 or 14.8%, to reach QR 60799 million at the end of 2004, against an increase of QR 7194 million or 15.7% at the end of 2003. On the other hands the ratio of customers' deposits to total liabilities was decreased from 69.9% at the end of 2003 to 66.3% at the end of 2004.

A. Distribution of customers' deposits by maturity and currency type.

Demand deposits continued to record a highly increased by QR 4056 million or 26.5% at the end of 2004, vis-à-vis QR 4082 million or 36.3% at the end of 2003. Consequently, the ratio of demand deposits to total deposits rose to 31.9% at the end of 2004, from 28.9% at the end of 2003. Such ample growth in demand deposits can be ascribed to the surge in level of trade activities in the Doha Securities Markets, and real estate sector, which required the traders to hold a large amount of checkable accounts.

Regarding the saving and time deposits, they recorded an increase by QR 3779 million or 10%, to reach QR 41427 million, comprising 68.1% of total deposits at the end of 2004, vis-à-vis an increase of 3112 million or 9% at the end of 2003. Such increase in saving and time deposits was may attributed to the rise in interest rates in local banks during the year 2004.

Regarding the distribution of deposits by currencies, local currency deposits amounted QR 40936 million, with an increase of QR 4962 million or 13.8% at the end of 2004, vis-à-vis an increase of QR 7012 million or 24.2% at the end of 2003. Foreign currencies deposits reached to QR 19863 million, with an increase of QR 2874 million or 16.9% at the end of 2004, vis-à-vis an increase no more than QR 181 million at the end of 2003.

Table (52) **Distribution of customers' deposits by maturity and Type of Currency**

Millions of QR

Items	2000	2001	2002	2003	2004	Changes 03-2004	
						Value	%
Total Deposits	**36345**	**42519**	**45770**	**52964**	**60799**	**7835**	**14.8**
demand	3246	4067	11234	15316	19372	4056	26.5
Time	33099	38452	34536	37648	41427	3779	10.0
In Demostic Currency	**23885**	**26386**	**28962**	**35974**	**40936**	**4962**	**13.8**
demand	3051	3767	7588	11050	15262	4212	38.1
Time	20834	22619	21374	24924	25674	750	3.0
In Foreign Currencies	**12460**	**16133**	**16808**	**16990**	**19863**	**2873**	**16.9**
demand	195	300	3646	4266	4110	-156	-3.7
Time	12265	15833	13162	12724	15753	3029	23.8

B- Distribution of customers' deposits by economic sectors:

Distribution of customers' deposits by economic sectors showed that the personal deposits constituted 41.8% of the increase in total deposits. The personal deposits escalated by QR 3277 million or 14.4%, to reach QR 26008 million or 42.8% of total deposits at the end of 2004. Deposits of private sector enterprises recorded a significant increase by QR 3187 million or 39.9%, to reach QR 11166 million or 18.4% of total customers' deposits. Deposits of non-residents sector recorded a noticeable increase by QR 256 million or 91.8 % to reach QR 535 million at the end of 2004, against an decrease no more than QR 5.0 million or 1.8 % at the end of 2003.

Regarding to the public sector deposits, the increase in such deposits was mainly concentrated in deposits of government institutions by QR

1860 million or 21.9%, vis-à-vis a decrease of QR 2975 million or 25.9% at the end of 2003. Deposits of semi-government recorded an increase of QR 731 million or 16.7% at the end of 2004. Whereas, government deposits recorded a noticeable decrease by QR 1477 million or 16.2%, to reach QR 7627 million at the end of 2004. Such decrease was due to settlement of proportion of government loans to local banks during the year 2004.

Table (53)

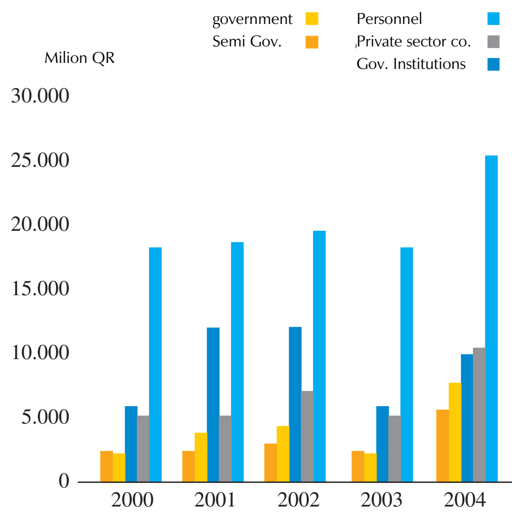
Distribution of Deposits by Economic sectors

Millions of QR

Items	2000	2001	2002	2003	2004	Changes 03-2004	
						Value	%
Public Sector	**11872**	**18029**	**18680**	**21976**	**23090**	**1114**	**5.1**
Government	2463	3712	4070	9104	7627	-1477	-16.2
Government institutions	6800	11793	11481	8506	10366	1860	21.9
Semi governments institutions	2609	2524	3129	4366	5097	731	16.7
Private Sector	**24474**	**24490**	**26806**	**30710**	**37174**	**6464**	**21.0**
Private Sector Enterprises	6120	5719	6710	7979	11166	3187	39.9
Personnel	18354	18771	20096	22731	26008	3277	14.4
Non-residents	0	0	284.4	279	535	256	91.8
Total deposits	**36346**	**42519**	**45770**	**52965**	**60799**	**7835**	**14.8**

2- shareholders' equity:

Local banks are obliged to abide by ratios of capital adequacy established by Qatar Central Bank. Accordingly, the banks continued to improve their financial positions with intention of meeting the criteria of Basle Accord. As a result, shareholders' equities recorded an increase QR 4197 million or 48.3% to reach QR 12887 million at the end of 2004, comprising 14.1% of total liabilities. Such increase in shareholders' equities was due to :



- banks increased their capital by QR 677 million or 28.6% at the end of 2004 , vis-à-vis QR 217 million or 10.1% at the end of 2003.
- Legal reserves were increased by QR 2030 million or 103%, constituting 48.4% of total increase in shareholders' equities. On the other hands, other reserves were increased by QR 1262 million or 35.1%, of which,

87.5% was due to revaluation of banks' financial investments consequential to the high rise in Doha Securities Markets Index.

- Retained profits were increased by QR 228 million or 30.4% to reach QR 980 million at the end of 2004, vis-à-vis an increase of QR 166 million or 28.3 % at the end of 2003.

Table (54) **Shareholders' equities** Millions of QR

Items	2000	2001	2002	2003	2004	Changes 03-2004 Value	%
Paid up capital	2088	2110	2150	2367	3044	677	28.6
Legal reserves	1562	1518	1563	1972	4001	2030	103.0
Other reserves	2185	2410	2824	3599	4861	1262	35.1
Retained profits	275	425	586	752	980	228	30.4
Total Shareholders Equity	**6110**	**6463**	**7122**	**8690**	**12887**	**4197**	**48.3**
Shareholders' equity/ Total Liabilities	**12.2%**	**11.3%**	**11.4%**	**11.5%**	**14.1%**	**-**	**-**

Net foreign assets:

Net foreign assets of local banks remarkably improved, as it moved up by QR 4227 million or 27.5% to reach QR 19588 million at the end of 2004. As a result of:

1. In foreign assts side :

- An increase of QR 5459 million or 40% in balances with banks abroad to reach QR 19121 million at the end of 2004.
- Local banks expanded their investments in foreign securities during 2004 by QR 2078 million or 39.2%, to reach QR 7382 million at end of 2004.

2. In foreign liabilities side

Foreign liabilities were increased by QR 4065 million or 99% , to reach QR 8169 million at the end of 2004. Such increase was due to an increase in due to foreign banks by QR 3809 million or 99.6% and non-resident deposits by QR256 million or 91.8 %.

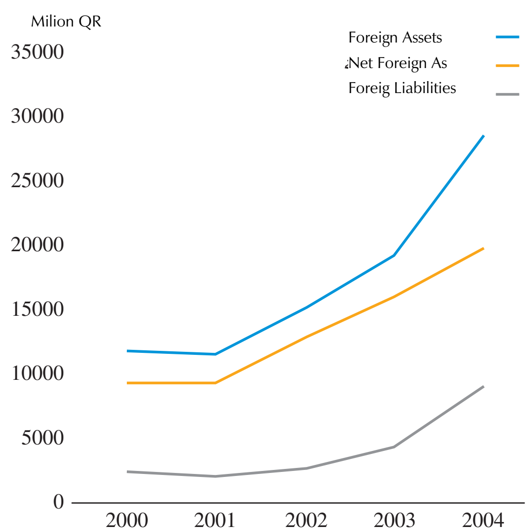


Table (55) **Banks' Net foreign assets** Millions of QR

Items	2000	2001	2002	2003	2004	Changes 03-2004 Value	%
Foreign Assets	**11036**	**10483**	**13702**	**19465**	**27757**	**8292**	**42.6**
Cash in Vault	14	53	47	57	65	8	14.0
due from banks abroad	9349	8253	10335	13662	19121	5459	40.0
financial Investment outside Qatar	472	691	3073	5304	7382	2078	39.2
credit facilities outside Qatar	1201	1486	247	442	1189	747	169.0
Foreign Liabilities	**2225**	**2136**	**2668**	**4104**	**8169**	**4065**	**99.0**
Non-residents deposits	0	0	284	279	535	256	91.8
due to banks abroad	2225	2136	2384	3825	7634	3809	99.6
Net Foreign Assets	**8811**	**8347**	**11035**	**15361**	**19588**	**4227**	**27.5**

Memoranda Accounts:

Memoranda accounts rose during 2004 by QR 14185 million or 36.5%, to reach QR 53029 million, against a higher increase of QR 15206 million or 64.3 % at the end of 2003.

The increase in memoranda accounts of local banks during the year 2004 was mainly ascribed to:

- Expansion of QR 5480 million or 35.9% in deferred contracts and derivatives accounts.
- Letter of guarantee were increased by QR 5132 million or 51.2%, to reach QR 15150 million at the end of 2004, had accounted for the second largest portion of memoranda accounts. Such increase was mainly due to the expansion of real estate and construction activities in Qatar during 2004.
- Unused credit facilities were increased by QR 3149 million or 54% to reach QR 8985 million at the end of 2004.

Table (56) **Memoranda Accounts** Millions of QR

Items	2000	2001	2002	2003	2004	Changes 03-2004 Value	%
Letters of Credits	2002	2959	3775	4498	6193	1695	37.7
Letters of Guarantee	7303	8086	9291	10018	15150	5132	51.2
Differed Contracts	1737	7688	3902	15264	20744	5480	35.9
Unused Credit Facilities	2581	3809	3733	5836	8985	3149	54.0
Others	2620	2341	2937	3228	1957	-1271	-39.4
Total	**16243**	**24883**	**23638**	**38844**	**53029**	**14185**	**36.5**

Qatar Industrial Development Bank (QIDB)

The balance sheet of Qatar Industrial Development Bank in 2004 reflected the expanding of the bank 's activities either through extending credit facilities or via direct investments in the industrial projects. Despite the total balance sheet of the bank recorded a slightly decrease by QR 1.6 million OR 0.4% to reach QR 361.9 million at the end of 2004, the credit facilities extended to the banks' cliants increased by 14.7 million or 25.6% and financial investments recorded an increase of 29.1 million or 20.6% at the end of 2004.

Table (57)

Qatar Industrial Development Bank s' Balance Sheet

Millions of QR

Items	2000	2001	2002	2003	2004	Changes 03-2004	
						Value	%
Balances with Banks & Financial Institutions	175.4	122.4	114.2	139.1	91.7	-47.4	-34.1
Financial Investments	78.4	79.5	116.6	141.2	170.3	29.1	20.6
Credit Facilities	23.6	30.1	38.6	57.4	72.1	14.7	25.6
Other assets	3	8.8	20.6	25.8	27.8	2	7.8
Total assets = Liabilities	**280.4**	**240.8**	**290.0**	**363.5**	**361.9**	**-1.6**	**-0.4**
Due to banks and financial Institutions	47.5	2.4	14.3	18.8	16.3	-2.5	-13.3
Customers' deposits	0.3	0.3	0.3	0.2	0	-0.2	-100.0
Provisions	1.3	1.9	4.2	5.8	10.7	4.9	84.5
Other liabilities	11.4	12.3	9.3	29.5	3.6	-25.9	-87.8
Shareholders' Equity	219.9	223.9	261.9	309.2	331.3	22.1	7.1

The main developments on assets and liabilities sides are briefly summarized as follows:

Assets:

1. Financial investments in industrial projects recorded an increase of QR 29.1 million or 20.6% to reach QR 170.3 million at the end of 2004, comprising 47% of total assets. The largest proportion of the increase in this item was due to revaluation of the bank 's portfolio of domestic shares consequential to the high rise in Doha Securities Market Index, which resulted in rise in the value of these shares by QR 15 million.

2. Credit facilities extended to industrial projects recorded an increase of QR 14.7 million or 25.6% to reach QR 72.1 million at the end of 2004, comprising 19.9% of total assets.

Liabilities:

The bank continued to rely on shareholders equity as the main source of funds to finance its activities in the industrial sector. The shareholders equity recorded an increase of QR 22.1 million or 7.1% to reach QR 331.3 million at the end of 2004, comprising 91.5% of total liabilities, vis-à-vis QR309.2 million, comprising 85.1% of total liabilities at the end of 2003. The increase in shareholders equity in 2004 owed to an increase in reserves and retained profits by QR 16.3 and QR 5.8 million respectively.

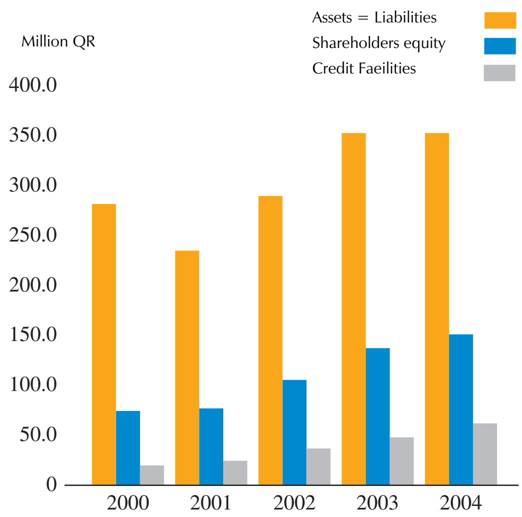


Table (58) **Shareholders' Equity**

Millions of QR

Items	2000	2001	2002	2003	2004	Changes 03-2004 Value	Changes 03-2004 %
Capital	200	200	200	200	200	0	0.0
Legal Reserves	3.1	4.8	6.8	9.1	10.5	1.4	15.4
Other reserves	11	11	39	74.8	89.7	14.9	19.9
Retained Profits	5.8	8.1	16.1	25.3	31.1	5.8	22.9
Total Shareholders' Equity	**219.9**	**223.9**	**261.9**	**309.2**	**331.3**	**22.1**	**7.1**
Shareholders' Equity / Total Liabilities	**78.4%**	**93.0%**	**90.3%**	**85.1%**	**91.5%**	**-**	**-**

Indicators of banks' performances

Indicators of banks' performances measure the health and soundness of the banking institutions and assess the strength and vulnerabilities of their financial positions. The objectives of Qatar Central Bank for measuring banks' performances are enhancing financial stability and limiting likehood of failure of the banking system.

The following is a brief analysis of the developments of reported indicators:

1. Capital adequacy standards:

These standards measure the banking institutions strengthen and the adequacy of the banks' capital to absorb any future financial shocks.

The development of these standards shows:

- Ratio of regulatory tier 1 capital to total assets: this ratio measures the financial leverage of the banking institutions (the extend to which assets are funded by other than own funds). The ratio shows an increase from 10.0% in 2003 to 11.7% in 2004.
- Ratio of regulatory tier 1 capital to risk weighted assets registered no change in the last two years. Where, it reaches 22.1% at the end of 2004 vis-à-vis 22.2% at the end of 2003.
- Ratio of regulatory tier 2 capital to risk weighted assets: this ratio is based on the definition used in the Basel Accord. The development of this ratio shows a decreasing trend from 25.3% in 2003 to 24.9% in 2004. Nonetheless though, decreasing the ratio is higher than the minimum of 10% determined by QCB.
- Ratio of non-performing loans to capital: this ratio measures the potential impact of non-performing loans on capital and provides an indication of the capacity of the banks' capital to withstand non-performing loans related losses. The development of this ratio shows a decreasing trend to reach 3.6% at the end of 2004 vis-à-vis 6.8% at the end of 2003. this trend demonstrate the improvement in assets quality of the banks and sufficiency of their capital.

2. Assets quality standards:

These standards measure the risk to the solvency of banking institutions driven from impairment assets. The development of the assets quality indicators show improvement trend in the quality of assets with local banks in 2004, compared with the previous years. Where, the ratio of non-performing loans to total loans shows decreasing trend during the last five years to reach 6.35 at the end of 2004, vis-à-vis 8.1% at the end of 2003. Whereas, the ratio of loans' provision to total non-performing loans recorded an increase to reach 100.6% at the end of 2004, vis-à-vis 94.6% at the end of 2003.

On the other hands, the ratio of loans' provisions to total loans decreased to 6.3% at the end of 2004, vis-à-vis 7.6% at the end of 2003. That arises due to the written off a proportion of bad loans with banks during 2004. likewise the ratio of total provisions to total assets decreased to 3.9% at the end of 2004, vis-à-vis 5.2% at the end of 2003.

Sectoral distributions of loans:

The analyses of sectoral distribution of loans provide information about distribution of the credit facilities to economic sectors. A large concentration of credit in a specific economic sector or activity may signal an important vulnerability of the banking sector to the risk in that sector or activity.

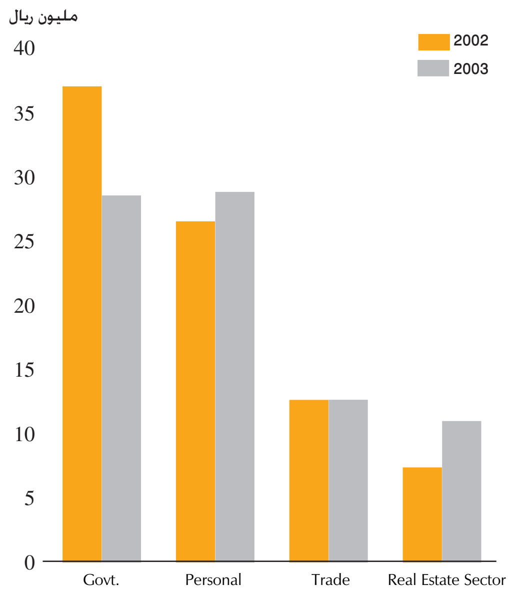


Table shows that 82.4% of credit facilities provided to economic sectors were mainly concentrated in; personal (29.2%), government (28.7%), general trade (12.7%), and real estate & construction (11.8%). Risk associated with the expansion of credit facilities to government and personals is minimal, as credits to government are risk free and credits to personals are collateralized by their salaries. On the other hand, Credit to real estate and construction sector were noticeably increased during the year 2004. At which, the ratio of such credit to total credit facilities moved up from 7.7% at the end of 2003, to 11.8% at the end of 2004. The increase was accompanied by the economic boom in Qatar in the last few years. However, any economic downturn may have detrimental impact on banking sector profitability and health. Consequently, Qatar Central Bank determined maximum limit of mortgage financing to all customers by 150% of shareholders' equity or 15% of total customers deposits which ever is less for commercial banks and 200% or 20% respectively, for Islamic banks.

3. profitability standards:

These standards reflect banks' abilities to augment their equities and distribute dividends on their shareholders, and enhance their reserves and financial positions. The development of these indicators demonstrate some improvements, where the ratio of net profits to average assets increase to 2.8% by the end of 2004, vis-à-vis 2.5% at the end of 2003, likewise the ratio of other income to total income increase to 30.6% at the end of 2004, against 28.9% at the end of 2003. However, the ratio of net interest to average asset and to total income decrease to 2.7% and 48.0% respectively, at the end of 2004, vis-à-vis 3.0% and 50.4% respectively, at the end of 2003.

4. Liquidity standards:

These criteria measure the liquidity level with local banks and their ability to withstand shocks, such as a loss of confidence by depositors.

Table ( ) includes 6 indicators of banks' liquidity. The developments of these indicators show improvement in liquidity level in the banking sector in the year 2004. Where the ratio of liquid assets to total assets and the ratio of liquid assets to short term liabilities increased to 41.6% and 54.8% respectively at the end of 2004, vis-à-vis 38.5% and 50.9% respectively at the end of 2003. Likewise the ratio of cash and balances due from banks to total assets increased to 3.8% at the end of 2004, against 3.3% at the end of 2003.

On the other hand, the ratios of total loans to total deposits and total loans to total assets decreased from 82.5% and 57.5% respectively at the end of 2003 to 81.4% and 53.8% respectively at the end of 2004. That was arise due to the noticeable reduction in government borrowings from local banks during 2004.

5. Use of funds standards:

These indicators measure the capability of banks to use the available financial resources in income generating uses. The developments of these indicators show noticeable improvements in the major activities of local banks in general and in credit facilities and financial investments in particular. Whereas, the ratio of total assets in foreign currencies to total liabilities in foreign currencies recorded decrease from 168% at the end of 2003 to 159% at the end of 2004. Such reduction owed to banks increased their use of funds in extending credit facilities and financial investment domestically. Where, the yields on these activities in domestic market are higher than abroad.

6. General indicators :

These are the growth rates of major items of banks' aggregated balance sheet. These ratios reveal that banks continued to achieve higher growth rates in most of their balance sheet items in general and customers' deposits and financial investments in particular. Where, they grew by 20.9% and 21.5% respectively at the end of 2004.

Table (61)

Indicators of Banks' Performance

Percentage

Items	2000	2001	2002	2003	2004
1- Capital Adequacy					
Regulatatry tier 1 capital / total assets	12.6%	11.7%	10.7%	10.0%	11.7%
Regulatatry tier 1 capital / Risk weighted assets	n/a	26.9%	24.4%	22.2%	22.1%
Regulatatry capital / Risk weighted assets	n/a	27.7%	25.1%	25.3%	24.9%
Non-performing loans / capital	23.1%	21.6%	17.4%	6.8%	3.6%
2- Standards of Assets' quality					
Non-performing loans total loans	10.9%	10.7%	11.1%	8.1%	6.3%
Loans provisions / Non-performing loans	58.8%	66.8%	77.7%	94.6%	100.6%
Loan provisions/Total loans	6.4%	7.1%	8.7%	7.6%	6.3%
Total provisions/Total assets	4.6%	5.3%	5.9%	5.2%	3.9%
3- Profitability Standards					
Net profits/Average Shareholders' equity	12.0%	15.8%	18.1%	20.8%	20.8%
Net profits/Average Total Assets	1.4%	1.9%	2.1%	2.5%	2.8%
Net Interest//Average Total Assets	1.7%	2.0%	3.3%	3.0%	2.7%
Net interests/Total income	20.5%	25.6%	53.1%	50.4%	48.0%
Other income/Average Total assets	1.6%	1.8%	1.2%	1.7%	1.8%
Other income/Total Income	19.3%	22.9%	20.0%	28.9%	30.6%
Other expenses/Total Income	28.9%	28.5%	39.1%	38.5%	30.5%
Wages & Salaries / other expenses	27.9%	30.6%	30.6%	31.0%	38.0%
4- Liquidity Standards					
Cash and balances with QCB/Total assets	2.8%	3.0%	3.4%	3.2%	3.7%
Liquid Assets/Total Assets	38.0%	34.0%	39.0%	3.85%	41.6%
Liquid Assets/Liquid Liabilities	53.1%	44.2%	51.1%	50.9%	54.8%
Financial Assets' portfolio/Total assets	15.4%	15.6%	16.0%	15.3%	15.3%
Total loans/Customers' deposits	80.1%	83.5%	79.1%	82.7%	51.4%
Total loans/Total assets	57.9%	61.9%	57.8%	57.5%	53.8%
5- Uses Standards					
Loans to Private sector/private sector deposits	75.4%	77.4%	70.7%	76.2%	80.2%
Loans to private sector/Total loans	63.4%	53.4%	52.9%	53.5%	60.3%
Domestic credit/	65.4%	69.1%	67.7%	70.0%	65.3%
(Total deposits + Shareholders' equity)					
Total Assets in foreign currencies/					
Total liailities in foreign currencies	137.6%	138.6%	150.6%	168.3%	159.3%
6- General Ratios					
Growth Rate of Total Assets	5.4%	14.1%	9.3%	21.5%	20.9%
Growth Rate of Total Customers' Deposits	34.2%	17.0%	7.6%	15.7%	14.8%
Growth Rate of Total Credit Facilities	-2.7%	21.9%	2.0%	20.9%	13.0%
Growth Rate of Financial Assets Portfolio	165.1%	15.8%	11.7%	16.0%	21.5%

Sectorial Distributions of Loans

Table (61)

(As percentage of total domestic credit facilities)

Percentage

Items	2000	2001	2002	2003	2004
Public Sector	**38.2%**	**48.6%**	**46.8%**	**46.0%**	**38.2%**
Government	36.1%	44.4%	38.7%	37.7%	28.7%
Gov. Institutions	1.1%	3.5%	5.4%	4.9%	4.9%
Semi Gov. Insititutions	1.0%	0.7%	2.7%	3.4%	4.7%
Private Sector	**61.8%**	**51.4%**	**53.2%**	**54.0%**	**61.8%**
Personnel	32.9%	26.1%	25.2%	26.5%	29.2%
General trade	16.1%	11.9%	13.1%	12.8%	12.7%
Services	1.7%	3.1%	3.9%	4.3%	4.9%
Real estate & Construction	7.8%	6.9%	7.3%	7.7%	11.8%
Others Sector	**3.3%**	**3.3%**	**3.7%**	**2.7%**	**3.2%**

Exchange Companies

The exchange companies did expand their activities during the year 2004. Where their aggregated balance sheet recorded QR 506 million at the end of 2004 vis-à-vis 356.3 million at the end of 2003, marked increase of QR149.7 million or 42%.

Table (61)

Aggregated Balance Sheet of Money Exchange Companes

Millions of QR

Items	2000	2001	2002	2003	2004	Changes 03-2004	
						Value	%
Cash	32	36.5	41.8	43.1	68.1	25.0	58.0
Due From Banks	91	84.9	70.7	77.4	78	0.6	0.8
Balances with money exchangers & branches	4	1.8	9.2	9.2	6.2	-3.0	-32.6
Financial investments	15	53.5	98.6	213.0	324.5	111.5	52.3
Fixed assets	6.0	5.7	5.9	5.3	19.7	14.4	271.7
Other assets	7	7.6	11.5	8.3	9.5	1.2	14.5
Total assets = Liabilities	**155**	**190**	**237.7**	**356.3**	**506**	**149.7**	**42.0**
Reserves and Capital	71.0	97.4	140.0	262.0	404.2	142.2	54.3
Due to banks	49.0	60.5	60.0	55.0	63.7	8.7	15.8
Branches & Exchangers accounts	15.0	13.5	16.7	17.5	16.9	-0.6	-3.4
Other liabilities	19.0	18.6	21.0	21.7	21.2	-0.5	-2.3

Assets:

1. Cash in vault recorded an increase of QR 25 million or 58% to reach QR 68.1 million at the end of 2004. This increase was due to expanding of the exchange companies' activities in transferring money abroad and exchange currencies, that was consistent with the increase in economic activities in Qatar.
2. Financial investment recorded an increase of 111.5 million or 52.3% to reach QR 324.5 million at the end of 2004, comprising 64.1 % of total assets. The largest portion of the increase in financial investments owed to the revaluation of this item, consequential the rise of Doha Securities Market Index.

Liabilities:

Exchange companies continued to rely on shareholders equity as a main source of funds to finance their activities, the companies augmented the capital and reserves by the amount of QR 142.1 million or 54.3% to reach QR 404.2 million at the end of 2004, comprising 79.9% of total liabilities.

Table (62) reflects the developments in shareholders equity.

Table (62) **Shareholders' Equity**

Millions of QR

Items	2003	2004	Changes 03-2004 Value	%
Capital	51	68.3	17.3	33.9
Legal Reserves	45	81.7	36.7	81.6
Other reserves	133	209	76	57.1
Retained Profits	8.7	22.5	13.8	158.6
Others	24.3	22.7	-1.6	-6.6
Total Shareholders' Equity	**262**	**404.2**	**142.2**	**54.3**

Finance Company

Available data on the balance sheet of the financing company operating in Qatar indicate that the activities of this company shrank in 2004 compared to the previous year. The balance sheet recorded a decrease by QR 11.7 million or 2.1% to reach QR 552.2 million at the end of 2004.

Table (63)

The balance Sheet of the Finance Company

Millions of QR

Items	2001	2002	2003	2004	Changes 03-2004 Value	Changes 03-2004 %
Cash and balances with banks	12.1	33.9	24.6	83.7	59.1	240.2
Debtors	193.2	451	493.5	411.3	-82.2	-16.7
Financial investments	15.3	0	5.5	0.8	-4.7	-85.5
Other assets	14.4	14.9	40.3	56.4	16.1	40.0
Total assets = Liabilities	**235**	**499.8**	**563.9**	**552.2**	**-11.7**	**-2.1**
Shareholders' Equity	101.2	111.4	141.2	174	32.8	23.2
Borrowing from Financial Institutions	115	276.4	369.2	291.9	-77.3	-20.9
Other liabilities	18.8	112	53.5	86.3	32.8	61.3

The most important development in the balance sheet of the company are briefly addressed in the following:

Assets:

- Basic Islamic financing activities of the company decreased to reach 411.3 million by the end of 2004; recording a fall of QR 82.2 million or 16.7%. Compared to an increase of QR 42.5 million or 9.4% at the end of 2003. As a result, the ratio of Islamic financing to total assets decreased to reach 74.5% at the end of 2004 vis-à-vis 87.5% by the end of the previous year.
- Financial investment stood at 0.8 million by the end of 2004, recording a noticeable decrease of 4.7 million or 85.5%.

Liabilities:

- The company relies on borrowing from financial institutions and shareholder equity as the principal source of funds to finance its activities. Borrowing from financial institutions decreased by QR 77.3 million to reach QR 291.9 million at the end of 2004. As a result, the ratio of this item to total liabilities decreased to 52.9% at the end of 2004 vis-à-vis 65.5% at the end of 2003.

- Shareholders' equity increased to reach 174 million by the end of 2004. Thereby, recording an increase of QR 32.8 million or 23.2%. As a result, the ratio of shareholders equity to total liabilities increased to reach 31.5% by the end of 2004, vis-à-vis 25% by the end of previous year.

Investment Companies

The aggregated balance sheet of investment companies had totaled QR 91.1 million by the end of 2004, recorded an increase of QR 11.4 million or 14.3%.

The development in balance sheet are briefly addressed in the followings:

Table (64) **The balance Sheet of the Investment Companies** Millions of QR

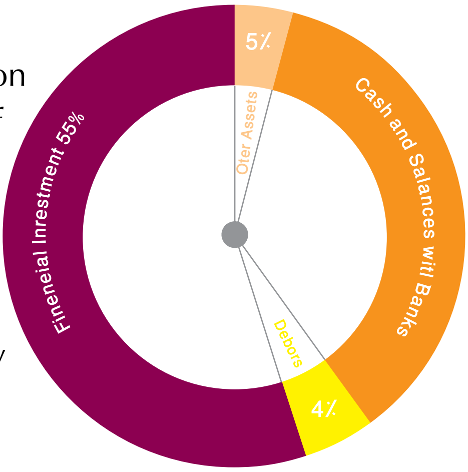
Items	2001	2002	2003	2004	Changes 03-2004 Value	%
Cash and balances with banks	30.3	43.8	33.8	32.9	-0.9	-2.7
Debtors	3.9	5.6	1.5	3.4	1.9	126.7
Financial investments	16.8	11.6	31.6	49.8	18.2	57.6
Other assets	18.1	10.5	12.8	5	-7.8	-60.9
Total assets = Liabilities	**69.1**	**71.5**	**79.7**	**91.1**	**11.4**	**14.3**
Shareholders' Equity	61.8	65	77.4	88.3	10.9	14.1
Short Term Borrowing	1.2	3.8	0.5	0.4	-0.1	-20.0
Other liabilities	6.1	2.7	1.8	2.4	0.6	33.3

Assets:

1. Financial investments recorded an increase of QR 18.2 million or 57.6%. Comprising about 159.6% of total increase in the assets side. As a result, the ratio of financial securities to total assets reached 54.7% at the end of 2004, vis-à-vis 39.6% at the end of the previous year.
2. Cash and balances with banks comprised about 36.1% of total assets in 2004 to reach QR 32.9 million, vis-à-vis QR 33.8 million in 2003.

Liabilities:

The investment companies rely on shareholders' equity as the major source of funds to finance their activities. This item comprised about 96.9% of the total liabilities by the end of 2004, amounted to QR 88.3 million, vis-à-vis QR 77.4 million in 2003, recording an increase by QR 10.9 million or 14.1%.



DOHA SECURITIES MARKET

Doha Securities Market (DSM) showed extraordinary increases throughout the year 2004; particularly, in trade volume, price levels, and these are as follows:

1. The expansionary fiscal policy maintained throughout the years via increasing public expenditure for developing projects, that reached the level of QR. 7.1 billion in the year 2004/2005, compared with QR. 5.2 billion and 4.4 billion in the past two years; successively.

2. The realization of high profits made by the companies listed in the DSM increased by 59% to reach QR. 7.83 billion in the year 2004, compared with QR. 4.92 billion in the year 2003. Profits increased in the industry sector by 104%, to reach QR. 2.77 billion, followed by the insurance sector, which increased by 81% to reach QR. 316.3 million. The banking sector came third with an increase of 41.6% to reach QR. 1.96 billion. Finally, the services sector's profits increased by 38.9% to reach QR. 2.78 billion. The high increase in the profits had a direct impact on the level of dividends distributed to the shareholders, whether in a form of cash or shares; For example, 10% paid in cash by Qatar Technical Inspection, 60% by Qatar National Bank, and 85% by Qatar Telecom. While, 70% paid in (free) shares by Qatar Islamic Bank, 70% by Doha Bank, 66.6% by The Islamic Insurance, and 5% by National Leasing. At the same time, some companies paid both cash and shares; such as, 40% in cash and 40% in shares by the Commercial Bank, 30% and 50% by General Insurance, 40% and 30% by Qatar Insurance, and 40% and 20% by Qatar Navigation.

3. The relatively of low interest rates on the Qatari Riyal since 2003; despite the four times increases in Qatar Money Market (QMR), the interest rate remained at 2.5% by the end of 2004.

4. The expansion of 20.5% in domestic liquidity (money supply broadly defined (M2)) to reach QR. 44.8 billion in the year 2004, against the growth of 17% in the year 2003.

5. High expectation due to the starting steps to allow non-Qatar citizens to invest in domestic shareholding companies at maximum rate of 25%.

6. Listing of two new companies in the DSM; such as, Gulf Warehousing Co. and Qatar Meat and Livestock Co.

Prices and General Price Index:

Doha Securities Market Index (DSMI) gained 2,546.92 points or 64.5% throughout the year 2004, to reach 6,493.62 points, compared with 3,946.70 points by the end of year 2003.

Available data reveal different rates of increase in the share prices of different companies listed in the DSM. Al-Khaleej Insurance Co. came in the lead with an increase of 160.1%, to reach QR. 200 per share. Qatar Insurance Co. came the second with an increase of 121.1%, to reach QR. 84.7, and finally Qatar Islamic Bank came the fourth with an increase of 110.3% to reach QR. 219.8 by the end of the year 2004 as shown in the table (65).

Prices of other shares showed certain increases ranging from a minimum of 3.4% for Industries Qatar Co. to a maximum of 98.5% for the Islamic Insurance Co. while, six other companies showed decrease as shown in the table during 2004.

Trading:

Traded volume of shares increased by 60.7% to reach 305.4 million shares in the year 2004, compared with 190 million shares in the year 2003. Meanwhile, the number of executed contracts rose by 111.3% to reach 284.6 Thousand against 134.7 Thousand in the year 2003. At the same time, trading value during the year 2004 rose by 97%, to reach QR. 23.1 billion compared with QR. 11.7 billion by the end of previois year.

The Banking Sector led trading during 2004. It accounted for 41.1% of the total tradied value, followed by the service sector, which accounted for 34.7%. The Industry Sector came third accounting for 21.2%, and finally the Insurance Sector, which accounted for 4%.

The number of companies listed in the DSM increased to 30 companies after listing of two new companies; Gulf Warehousing Co. and Qatar Meat and Livestock Co. with a capital of QR. 120 million and QR. 300 million, successively.

Market Capitalization rose by QR. 50 billion or 51.4% to reach QR. 147.2 billion at the end of the year 2004, compared with QR. 97.2 billion at the end of the year 2003.

Table (65)

Doha Stock Exchange
Closing Prices for Listed Companies

Sector	Company	Closing Price in QR 2003	Closing Price in QR 2004	Relative change %
Banks	Al-Ahli Bank of Qatar	79.6	89.3	12.2
	Commercial bank of Qatar	157.1	206.9	31.7
	Qatar International Islamic Bank	123.9	235.9	90.4
	Qatar Islamic Bank	104.5	219.8	110.3
	Qatar National Bank	126.9	199.7	57.4
	Doha Bank	169.2	223.1	31.8
Insurance	Qatar Islamic Insurance	131	260	98.5
	Al Khaleej Insurance	76.9	200	160.1
	Doha Insurance	41.5	54.1	30.4
	Qatar General Insurance	160.5	300	86.9
	Qatar Insurance	117.6	260	121.1
Industry	Qatar National Cement Company	185.5	225	21.3
	Qatar Industrial Manufacturing	41.5	39.3	-5.3
	Qatar German Medical Co.	31.2	27.8	-10.9
	Qatar Flour Mills	29.5	24.5	-16.9
	Industries	59.1	61.1	3.4
	United Development Co.	29.9	28.5	-4.7
Services	Al-Ahli Hospital	38.1	52	36.5
	Salam International Investment ltd	9.9	12.5	26.3
	Qatar Cinema & Film Distribution	40	73	82.5
	Qatar Real Estate Investment Co.	39	84.7	117.2
	Qatar National Navigation & Transport	127	133	4.7
	Qatar Shipping Co.	62.5	113.9	82.2
	Qatar Fuel Company	40.8	40	-2.0
	Qatar Telecom	158.4	229.8	45.1
	Qatar Electricity & water	46.1	55.7	20.8
	National Leasing	28.5	32.9	15.4
	Qatar Technical Inspection	84.2	66.2	-21.4
	Qatar Meat and Livestock co.	-	21	-
	Gulf wasehousing co.	-	23.5	-
	General Index	**3946.7**	**6493.6**	**64.5**

Doha Stock Exchange: Traded Shares.

Table (66)

(Value in QR Millions; Quantity in 1000 Shares)

Company	2003	2004	Change	
			Value	%
Banking Sector				
Value of Shares	3418.0	9257.8	5839.8	170.8
Quantity of Shares	38983.4	54883.5	15900.1	40.8
Insurance				
Value of Shares	344.2	920.8	576.6	167.5
Quantity of Shares	6684.0	8451.6	1767.6	26.4
Industry				
Value of Shares	3968.1	8027.6	4059.5	102.3
Quantity of Shares	72372.6	143484.8	71112.2	98.3
Services				
Value of Shares	3991.7	4888.3	896.6	22.5
Quantity of Shares	71932.5	98566.8	26634.3	37.0
Total				
Value of Shares	11722.1	23094.6	11372.5	97.0
Quantity of Shares	189972.5	305386.7	115414.2	60.7
Number of Deals	134696	284644	149948	111.3