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REVIEW OF DEVELOPMENTS AND TRENDS IN THE MONETARY AND FINANCIAL SECTORS IN THE ESCWA REGION, 1991

92-0711

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ABBREVIATIONS

...	to indicate that data are not available
--	to indicate that the figure is zero or less than half the final digit shown
-	between years or months (i.e., 1988-1990 or May-June) to indicate the years or months covered, including the beginning and ending years or months
/	between years (i.e., 1991/1992) to indicate a fiscal (financial) year
FMS	Foreign military sales
IMF	International Monetary Fund
GDP	Gross domestic product
GNP	Gross national product
GCC	Gulf Cooperation Council
OECD	Organization for Economic Cooperation and Development
$	United States dollar
JD	Jordanian dinar
BD	Bahraini dinar
ID	Iraqi dinar
KD	Kuwaiti dinar
QR	Qatari riyal
Dh	United Arab Emirates Dirham
SRl	Saudi riyal
YRl	Yemeni riyal
RO	Omani riyal
LE	Egyptian pound
LL	Lebanese pound
LS	Syrian pound

INTRODUCTION

This study was prepared by the Economic and Social Commission for Western Asia (ESCWA) in implementation of activity 1.a, entitled "Developments and trends in the monetary and financial sectors in the economies of the ESCWA region", of the Commission's programme of work and priorities for the period 1992-1993 in Public Administration and Finance. It reviews developments and trends in the monetary and financial sectors in the ESCWA region.[1/]

Fiscal and monetary developments in the ESCWA region during the last two years have been significantly affected by the Gulf crisis. Publication of the government budget in most ESCWA Gulf Cooperation Council (GCC) countries[2/] was delayed pending the assessment of the cost of the war and developments in oil prices. Government budgets of a number of other ESCWA countries had to be revised to reflect the loss of a significant portion of government external revenues, originating mostly from the GCC countries, and financial burdens caused by the massive influx of hundreds of thousands of returnees from the Gulf countries.

The financial constraints resulting from these developments necessitated urgent and immediate adjustment policies on the part of member countries, which undertook major reassessments of their fiscal policies, mainly in the direction of compressing expenditures. The restraint has mainly affected development expenditures; current expenditures, consisting mostly of wages and salaries, defence, public services and subsidies, proved difficult to curtail. However, in line with structural adjustment programmes implemented in agreement with the International Monetary Fund (IMF), certain ESCWA countries such as Egypt and Jordan were able to make reductions in subsidies and thus budget deficits. The reduction in subsidies and the decontrol of prices of many items caused prices to increase.

Indebted ESCWA countries have made significant efforts to increase their foreign currency earnings to improve their debt-service ratios (during the last few years debt service has grown faster than exports of goods and services). However, with many of these countries endeavouring to contain budget deficits and encourage private-sector activities in order to reduce the financial burdens resulting from supporting inefficient public-sector enterprises, the debt-service ratio could benefit from the "Trinidad Terms", adopted by the Paris Club in 1989, and offering debt write-offs and relief to the category of low- as well as middle-income countries.

The present study examines and analyses fiscal and monetary developments in the ESCWA region during the last two years.

1/ The ESCWA region comprises 13 countries, namely Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, the Republic of Yemen, Saudi Arabia, the Syrian Arab Republic, and the United Arab Emirates.

2/ The Gulf Cooperation Council (GCC) comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

I. IMPACT OF THE GULF CRISIS ON MONEY AND FINANCE IN THE ESCWA REGION

The Gulf crisis has had a strong impact on economic and financial development and planning in the ESCWA region. The financial upheaval that ensued has affected all sectors and groups, in ways that may redefine economic and financial planning for many years to come, as well as economic and financial cooperation among ESCWA member countries.

Government budgeting and financial planning envisaged prior to the onset of the crisis lost much of their relevance as levels of government revenues and expenditures became increasingly susceptible to non-economic and exogenous considerations. The situation has been further complicated for a number of ESCWA non-GCC countries which experienced a sharp fall in government revenues caused, among other things, by the loss of foreign exchange sources and the difficulty of maintaining expenditure levels, especially current expenditure, thus turning budgetary and financial planning decisions into ad hoc decisions. Considering further the falling behind in debt repayment by these countries, budget deficits became increasingly unmanageable. The huge number of returnees from the Gulf countries has sharply increased unemployment and added further burdens to the already stressed economies of the labour-sending countries.

With regard to GCC countries, the Gulf crisis has had a serious impact on financial resources and patterns of expenditures, with defence and security assuming greater importance in budgetary allocations.

The Gulf crisis also halted the recovery in the activities of GCC banks and financial institutions. Most of the 1980s was affected by the Iraq-Iran War, by big losses on loans to developing countries and local borrowers as well, and by a series of domestic financial problems. Following the 1982 collapse of Souq Al-Manach, the unofficial Kuwaiti stock exchange, five of Kuwait's six commercial banks had to be bailed out by the country's central bank.

Prior to the Gulf crisis, many ESCWA banks were still struggling to find new business as the region edged out of the recession of the 1980s. Many of these banks were considered deficit institutions, relying on the central banks for concessionary funding. By mid-1987, the biggest GCC banks were earning returns of only 0.17 per cent on their assets, or less than half the rate being earned by international banks. The 1990s appeared more promising. Trade and reconstruction revived following the end of the Iraq-Iran War in 1988, while higher oil prices improved the levels of international reserves of ESCWA GCC countries. Profits of banks started improving. And although a new round of provisions against non-performing loans depressed the earnings of most of these banks in 1989, it left the banks in a better position to cope with doubtful borrowers.

The improved prospects that were in evidence prior to the Gulf crisis led many ESCWA banks and financial institutions to formulate ambitious plans for the future. The revival of international trade gave many of these banks and institutions the chance to conduct the business they knew best, namely trade

financing. The Governments of Saudi Arabia, Oman and Qatar began borrowing money for the first time in over 30 years, opening up a new venue of business for banks and financial institutions. Deposits picked up as oil revenues rose. In Saudi Arabia, total bank deposits rose to around 142.3 Saudi riyals (SRl) billion ($38 billion) in 1989 from SRl 129.4 billion in 1987. Since Saudi banks pay no interest on a large chunk of their deposits, they can afford to lend to reliable, low-interest-paying borrowers that other banks would shun. Also Kuwaiti banks and financial institutions found during the few years preceding the Gulf crisis a new and profitable venue of business reflected in the considerable borrowing of the Government in the domestic market to finance budget deficits.

The Gulf crisis has affected the region's banks and financial institutions in many ways. Besides the experience of Kuwaiti banks following the occupation of the country, other banks and financial institutions in the ESCWA region were also adversely affected. Following the eruption of the crisis, Western banks immediately cut off lines of credit to banks of a number of ESCWA countries and suspended dealing in local currencies. International banks have also been unwilling to place deposits with these banks or even to accept deposits from them.

Besides Kuwait, the most affected GCC country has been Bahrain, which has no significant oil of its own and which prospered over the last two decades as an offshore banking centre owing to the significant amounts of funds generated by the oil-boom era of the 1970s and early 1980s. At end-1990, there were some 50 offshore banks in the country, down from 66 a year before. The country's two largest offshore banks -- the Arab Banking Corporation and the Gulf International Bank -- control over 40 per cent of the market. Their size notwithstanding, the two banks were not spared, not only because of the run on deposits, but also due to the structure of their shareholders. The Gulf International Bank is partly owned by Iraq and Kuwait, while the Arab Banking Corporation is 25 per cent owned by Kuwait and 25 per cent by Libya; this has affected the attitude of, and their relations with, the international financial community.

During the crisis, banks in the region seemed to have been squeezed at both ends, by panicked depositors, who are estimated to have withdrawn and transferred abroad between 20 and 25 per cent of deposits, and by Western banks and creditors who cut off lines of credit and other sources of ready cash. Indeed, withdrawal of deposits from banks in Bahrain and the United Arab Emirates has been so high that the central banks of both countries had to pump over $5 billion each to enable retail deposit withdrawals and currency transactions to be effected in an orderly manner. Capital flight from Saudi Arabia seems to have been relatively modest. Estimates set at around $5 billion the amount that left the country, or roughly 15 per cent of private-sector deposits. In addition to deposit withdrawals and loan losses, the GCC banks also had to worry about loss of reputation and confidence. Indeed, it took affected ESCWA banks till the end of 1991 to have their credit lines fully restored.

Other ESCWA countries that have been severely affected by the Gulf crisis include Jordan, the Republic of Yemen and Egypt. The crisis has affected

Jordan in many ways. Firstly, the loss of foreign exchange sources[3/] originating in GCC countries and the subsequent shortfall in government revenues, coupled with an increase in current expenditures of around 15 per cent in fiscal year 1990/1991, caused the budget deficit to widen by around threefold relative to fiscal year 1989/1990. The falling behind of around $1 billion in external debt servicing by end-1990 further burdened government finances. Secondly, the return of over 300,000 Jordanians from Kuwait and other GCC countries raised the unemployment rate from around 22 per cent before the Gulf crisis to over 30 per cent. With over 60 per cent of Jordanian exports traditionally marketed in Iraq and Kuwait, and with around 6 per cent of Jordan's gross domestic product (GDP) generated by the transit business with Iraq, the loss of both markets has left its mark on the economy. Thirdly, the tourism sector, which in 1989 constituted 8 per cent of Jordan's GDP, received a severe setback since the eruption of the crisis and is struggling hard to recover. Furthermore, the Gulf crisis has led to a virtual drying up of foreign investments.

As concerns the Republic of Yemen, the problems associated with the massive influx of returnees, especially from Saudi Arabia, are the more serious in view of the least developed status of the country. The loss of the main foreign exchange sources has aggravated the country's already depressed budget and balance of payments, and led to a sharp depreciation of the country's currency.

With regard to Egypt, the impact was severe in the initial stages of the crisis, especially in terms of the problems associated with the returnees and the drop in revenues from the Suez Canal and tourism. However, the forgiveness of over $20 billion of debt owed to the United States, the GCC countries and other creditors has softened the impact of the crisis. In addition, Egypt has benefited from the rise in oil prices following the eruption of the Gulf crisis.

The impact on liquidity in the GCC countries during the crisis and its aftermath has meant less money available to local borrowers and higher interest rates for investors. Furthermore, the erosion of capital adequacy ratios of many GCC banks halted or depressed international activities of these banks.

3/ These include workers' remittances, financial aid, and earnings from tourism, exports and transit trade.

II. FISCAL DEVELOPMENTS

A. GCC countries

The sharp fall in oil prices in the mid-1980s and the subsequent decline in oil revenues have made governments of the GCC countries more cautious in projecting future revenues and led them to follow a policy of rationalizing budgetary spending. Direct contributions to financing the war effort and its consequences have further aggravated the situation and forced a number of countries to draw heavily on their foreign reserves, in addition to resorting to domestic and foreign borrowing.

The healthy and liquid banking system in most of these countries has enabled the Governments to issue and market development bonds as well as treasury bills and notes, and helped to develop domestic financial markets by diversifying financial instruments.

The drop in oil revenues in the period which preceded the Gulf crisis has also led to cutbacks in government investment expenditures, and to postponing many development projects, especially in the sectors of industry and infrastructure. Owing to the importance of both sectors to the national economy and their heavy reliance on government funding, the GCC Governments have resorted to alternative sources of financing, including domestic and international commercial borrowing, joint ventures and (partial) privatization. The trend towards commercial borrowing by State-owned enterprises has gained momentum during the last few years -- especially domestic borrowing, which has been estimated to range between 20 per cent in Bahrain and 45 per cent in Saudi Arabia of investment capital requirements.

Development expenditures continue to be made mostly through the public sector. The search for alternative sources of financing has led GCC Governments to reconsider pricing and production policies of public-sector goods and services by orienting these policies increasingly to market conditions.

The budgets of most GCC countries for 1990 and 1991 were published with a delay pending the assessment of the cost of the war and developments of oil prices. However, estimates of government revenues have been conservative, and expenditures have focused on improving social services and on defence and security. Furthermore, projects which were postponed in previous fiscal years regained attention.

1. Bahrain

In order to stimulate the economy, the Bahraini Government has planned to inject $770 million in the form of development expenditures by end-1992. The Government is aware of the need to diversify national income sources. It is pressing ahead with a range of projects to broaden the export base and capture an increasing share of the global demand for Middle East-based services, such as banking and shipping. In this context, the Bahraini Government, which has been trying for many years to attract foreign medium- and small-scale industries to settle in Bahrain, but has always insisted on local

participation, indicated in late 1991 that as part of its efforts to stimulate the economy it will allow wholly-owned foreign companies to operate in the country, especially in the sectors of shipbuilding, transit and manufacturing.

The Government has paved the way for the establishment of a development bank that was expected to start operations in early 1992. The bank will provide long-term loans and venture funds to attract foreign investments. It will also provide a range of development finance facilities and instruments, including long-term concessionary loans, venture-capital subscriptions, working-capital and seed-capital loans for small businesses, especially in the manufacturing sector, which heavily depends on government subsidies and financial assistance.

The Bahraini budget indicates that the deficit in fiscal year 1991 will be 18 per cent higher than the previous year, but will rise by only 6 per cent in fiscal year 1992. The rise in the 1991 budget deficit is mainly attributed to the rise in allocations for projects which were postponed during the Gulf crisis. These expenditures, projected to increase by 16 per cent in 1991, are expected to remain unchanged in 1992 (table 1). Revenues in fiscal year 1991 are expected to increase by 7 per cent over the revenues of the preceding year, and by around 5.5 per cent in 1992. The increase in 1991 is mainly due to the expected significant rise in receipts from oil and gas from 250 million Bahraini dinars (BD) in 1989 to BD 292 million in 1991. These receipts are expected to rise further to BD 314 million in 1992, bringing total budget revenues from BD 472 million to BD 498 million.

Although Bahrain enjoys an internationally acceptable creditworthiness rating[4/] which enables it to borrow from the international financial markets, it has preferred in the last few years to finance its budget deficits by borrowing domestically, through the issuance of treasury bills. This process, however, was suspended in August 1990 to reduce the strain on domestic banks' liquidity caused by withdrawals of private deposits in the wake of the Gulf crisis. The issuance of treasury bills was resumed in early 1991, though at a reduced level.

2. Kuwait

The 1991/1992 preliminary budget statements put the cost of the liberation and reconstruction of the country at $24 billion. The estimates, however, do not include the spending incurred by the Government during its seven months in exile. The budget figures also imply increased defence spending, reduced returns on foreign assets and increased debt servicing. Projected expenditures are set at KD 6.087 billion Kuwaiti dinars (KD) ($21.433 billion), compared with KD 3.63 billion ($12.8 billion) for the 1990/1991 budget, the implementation of which had only just begun when Kuwait was invaded by Iraq (table 2). Non-military expenditures remain at almost the same level as that set out in the budget for 1990/1991. However, the budgeted massive defence spending and low oil revenues combined to produce a budget deficit of around KD 5.304 billion ($18.7 billion), more than three and a half

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4/ Reflecting risks of a political, financial, economic and development nature.

Table 1. Bahrain: budget, 1990-1992
(Millions of Bahraini dinars)

	1990	1991	1992
Expenditures	540	590	623
Current	415	445	478
Capital	125	145	145
Revenues	440	472	498
Oil and gas	250	292	314
Deficit	-100	-118	-125

Source: Figures for 1990 from Review of Developments and Trends in the Monetary and Financial Sectors in the ESCWA Region, 1989, (E/ESCWA/DPD/1990/6) table A-2; figures for 1991 and 1992 from Middle East Economic Survey, 22 April 1991.

times the planned deficit for 1990/1991 (KD 1.469 billion, or $5.2 billion). It should be pointed out, however, that since returns on overseas investments are not usually reported on the revenue side, the reported deficits are inflated to that extent. For example, these returns amounted to around $8.8 billion in fiscal year 1989/1990, thus exceeding oil revenues by $1.1 billion.5/

While oil revenues in the 1991/1992 budget have been projected at only KD 700 million ($2.5 billion), out of projected total revenues of KD 870 million ($3.04 billion), they were expected to increase to around KD 2 billion ($7.1 billion) in fiscal year 1992/1993, an order of magnitude almost equal to that projected for fiscal year 1990/1991. With non-oil revenues expected to recover too, defence spending and debt servicing will determine the budget deficit.

Apart from defence spending, which makes up over 43 per cent of total expenditures, non-military expenditures projected in the 1991/1992 budget have not changed significantly from those planned in the 1990/1991 budget. However, a difference can be seen in the provision of public services as a result of the decline in the country's population, from around 2.3 million before the invasion to less than 1.3 million in 1992. Non-military expenditures are budgeted to increase from KD 3.184 billion ($11.2 billion) in fiscal year 1990/1991 to KD 3.446 billion ($12.13 billion) in fiscal year 1991/1992. The increase essentially reflects the allocation of KD 525 million ($1.849 billion) for unspecified purposes, compared with just KD 182 million ($640 million) in the fiscal year before. The decrease in the country's

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5/ The slump in international financial markets in 1990 and 1991 and the selling of between $20 billion and $25 billion of foreign assets to meet commitments in the wake of the Gulf crisis are estimated to have reduced these returns to less than $5 billion in 1990 and 1991.

Table 2. Kuwait: budget, 1990/1991 and 1991/1992
(Millions of Kuwaiti dinars)

	1990/1991	1991/1992
Expenditures	3 634	6 087
Military expenditures	450	2 641
Non-military expenditures	3 184	3 446
of which: Social insurance	410	816
Education	491	458
Electricity and Water	486	254
Administrative services	202	237
Public utilities	433	217
Security and justice	237	196
Health	245	187
Foreign obligations	83	108
Land purchases	150	100
Housing	104	68
Other specified	361	291
Unspecified	182	525
Reserve Fund for Future Generations	240	87
Total expenditures	3 874	6 174
Revenues	2 405	870
of which: Oil revenues	2 109	700
Deficit	-1 469	-5 304

Source: National Bank of Kuwait, Economic and Financial Quarterly, First Quarter 1992.

population is behind the drop in budgeted expenditures on public services to almost half their level in fiscal year 1990/1991. In addition, the emergency payments to Kuwaiti citizens and for end-of-service payments for non-Kuwaitis have almost doubled the allocation for social insurance, from KD 410 million ($1.44 billion) in 1990/1991 to KD 816 billion ($2.87 billion) in 1991/1992.

The successful and earlier-than-expected extinguishing of oil-well fires, the resumption of oil exports, the availability of overseas assets and the ability to borrow in the international financial markets[6/] are expected to help ease Kuwait's financial constraints in the immediate future, especially as the drastic reduction in the size of the population reduces claims on

6/ In late 1991 Kuwait was able to raise a syndicated loan of $5.5 billion.

public services. Actually, the Government has not drawn up a programme for borrowing in the future. The only indication of future borrowing plans comes from the Amiri decree, published on 15 July 1991, which sets a ceiling of KD 10 billion ($35.20 billion) on total borrowing, including domestic borrowing, of which KD 2.749 billion ($9.7 billion) was outstanding on 2 August 1990 — all but KD 177 million of which has matured but was being rolled over indefinitely.

In late 1991 Kuwait announced that it was considering plans for an offset investment programme. The programme requires foreign companies winning contracts with official Kuwaiti entities to reinvest in Kuwait a sum equal to that of the contract. The size of the programme has been put at $20 billion in the short term and $40 billion over the next five to ten years. The programme, however, does not require that reinvestment be made in Kuwait. Such reinvestment may take the form of purchasing Kuwaiti exports from the private sector. Although the programme may enhance exports in the short term, it would face difficulties in identifying sufficient offset opportunities, given the size of non-oil sector activities. Furthermore, the programme may have a negative effect on the efficiency of the private sector, in terms of reduced incentives to compete on the international markets.

During the Gulf crisis, the National Bank of Kuwait (NBK), the largest Kuwaiti bank, was entrusted by the Central Bank of Kuwait with the task of discharging interest arrears amounting to $180 million (end-October 1990) on interbank deposits with Kuwaiti banks amounting to around $4.7 billion at end-March 1991. Except for the NBK, Kuwaiti banks were raising funds, which at end-January 1991 amounted to over $4 billion, by selling securities and loans to help settle their outstanding interbank positions, which include money-market transactions and off-balance-sheet positions.

In late 1991, the Kuwaiti Government announced a plan to buy out the country's commercial banks' bad loans, estimated at around $20 billion. The loans are a hangover from the Souk Al-Manach crash of 1982, but the situation has been aggravated by the problem of lost inventory and infrastructure destroyed during the occupation. Following the Gulf crisis Kuwaiti banks, except the NBK, found themselves unable to provide against bad loans, and obliged to balance their books with letters of guarantee from the Central Bank. The bad loans settlement plan involves a State-owned company buying the banks' bad loans at their face value minus provisions made in the form of collaterals, amounting to around KD 1.6 billion ($5.6 billion). The purchase of bad loans will be made through the issuance of 20-year bonds with a 5-year grace period and an interest rate of 5 to 5.5 per cent. The maturities of the bonds will vary and will be discountable with the Central Bank of Kuwait, so as to provide the banks with liquidity. In this respect, the banks' debtors will become debtors of the company which will require them to service their loans over 20 years at zero interest rate. Under this arrangement, the banks will no longer have to rely on the Central Bank's support. Their balance sheets will be cleared of the bad loans, and their accounts need not be qualified.

3. Oman

The windfall oil revenues of 1990, resulting from the rise in oil prices during the course of the Gulf crisis, almost eliminated the budget deficit which amounted to just around 11 million Omani rials (RO), down from around RO 296 million in 1989 (table 3). Oil revenues, constituting around 80 per cent of total government revenues, jumped from RO 1.08 billion ($2.82 billion) in 1989 to RO 1.54 billion in 1990 ($4.02 billion), but then dropped to about RO 1.2 billion in 1991 ($3.13 billion), resulting in a budget deficit of RO 236.7 million ($618.1 million), despite a decrease in total expenditures from RO 1.87 billion in 1990 to around RO 1.8 billion ($4.7 billion) in 1991. The latter figure, however, is still 8.6 per cent higher than that of 1989 (RO 1.645 billion) but considerably below expenditures of 1985 (RO 1.92 billion).

The Omani Government, however, has remained cautious in its spending policy. Indeed, while spending rose from RO 1.64 billion ($4.3 billion) in 1989 to RO 1.87 billion ($4.88 billion) in 1990, the rise was far short of that in oil revenues. The Omani Government introduced an entry in the budget called "expected savings in civil current expenditures", on the assumption that budgeted oil revenues may not materialize. The entry has been set at RO 50 million for fiscal year 1991, thus reducing the estimated budget deficit to RO 187 million.

Oman's drive towards diversification of national income sources has been reflected in its promotion of private-sector investments. Budget allocations aimed at supporting private-sector activities in the form of interest-free and minimal-interest loans amounted to RO 157 million ($410 million) in the Third Five-Year Plan budget (1986-1990), but were expected to drop to RO 129 million ($336.8 million) in the Fourth Five-Year Plan budget (1991-1995) (table 4). The drop, however, is not to be understood as reflecting a lessening in the Government's support of the private sector. The Government has rather enhanced its private-sector promotion policy, which includes protective tariffs for domestically produced goods, import duty exemption on investment inputs and five to ten years of income-tax holidays. Furthermore, the Government has continued its policy of establishing joint-venture partnerships with the private sector. Investments of the private sector in 1990 are estimated to have exceeded those of the public sector by around RO 13 million.

To help finance the budget deficit, but also to attract foreign investments into the country, Oman issued for the first time in 1991 development bonds in the amount of RO 10 million (medium-term debt instruments) bearing an interest rate of 8.5 per cent. The bonds are expected to complement the Government's three-month treasury bills, offered fortnightly, and to help develop the Omani financial market. The bonds are also expected to give the Central Bank of Oman more flexibility in its drive for a well-functioning monetary policy. The Central Bank would be in a better position to stimulate the economy by purchasing these bonds, and to dampen it by their sale. The Government, however, plans more issues of these bonds as a means of financing its Fourth Five-Year Plan Budget (table 4).

Table 3. Oman: budget, 1985-1991
(Millions of Omani rials)

	1985	1986	1987	1988 Actual	1989 Actual	1990 Budget	1991 Budget
Revenues	1 559.8	1 154.1	1 427.5	1 198.0	1 349.0	1 858.7	1 458.9
Oil revenues	1 306.8	895.0	1 143.1	950.8	1 084.4	1 538.4	1 218.0
Other revenues	253.0	259.1	284.4	247.2	264.6	320.7	330.9
Expenditures	1 915.3	1 854.0	1 576.4	1 560.4	1 644.7	1 869.8	1 785.6
Current	1 333.7	1 301.8	1 222.5	1 271.1	1 361.1	1 570.1	1 391.4
Defence and security	744.4	665.4	583.6	589.2	600.6	742.3	572.0
Capital	550.9	544.2	338.4	280.2	270.3	285.8	298.6
Other expenditures	30.7	8.0	15.5	9.1	13.3	13.9	-4.4
Current savings in civil current expenditures	-	-	-	-	-	-	49.7
Deficit	355.5	699.9	148.9	362.4	295.7	11.1	187.0
Financing	364.8	741.9	148.9	362.9	295.7	-169.0	187.0
Net grants received	-8.8	-0.3	2.7	15.7	6.2	-21.7	0.0
Net loans received	73.6	215.9	-52.2	72.1	34.6	-147.3	0.0
Drawing from revenues	300.0	526.3	198.4	274.6	254.9	0.0	187.0
Change in government accounts	9.3	42.0	0.0	0.0	0.0	-180.1	0.0

Source: Central Bank of Oman, Al Markazi (July/August 1991).

In late 1991, Oman announced that it was establishing an emergency fund to help finance the Fourth Five-Year Plan budget in the event of a sudden shortage of cash, with 7.5 per cent of annual oil revenues going to the fund, increasing to 10 per cent in case oil prices rise to above $20 per barrel. Actually, the drop in oil prices in the aftermath of the Gulf crisis below $20 a barrel, and the expected resumption of oil exports by Iraq and Kuwait, have made Oman rather cautious as concerns the expected level of oil revenues during the period of the Fourth Five-Year Plan budget and led the Government to revise downward levels of oil revenues, which previously were budgeted at over RO 8 billion for the duration of the Plan.

Oman's cautious fiscal policy has been reflected particularly in current expenditures allocations, whose level has moved almost parallel to that of revenues. Expenditures on defence and security have constituted, on average, over 47 per cent of total current expenditures over the last seven years (table 3), while capital expenditures, which in 1991 were around 40 per cent higher than the preceding year, were still far below expenditures in 1985 (RO 550.9 million). However, a significant amount of Omani capital expenditures represented the Government's share in Petroleum Development Oman (PDO), which increased from RO 115.7 million in 1990 to RO 163.0 million in 1991. The budget deficit has been financed by borrowing as well as drawing on government reserves. In 1990, owing on the one hand to the exceptionally low deficit, amounting to only RO 11.1 million and on the other hand to the financial assistance received from other GCC countries, amounting to RO 169 million, the Government was able to add around RO 180 million to reserves.

4. Qatar

Qatar has traditionally followed a conservative fiscal policy. The result has been reflected in underspending in recent years. Nevertheless, Qatar has experienced chronic budget deficits, with current expenditures alone largely exceeding total revenues (table 5).

The Government-budgeted expenditures in fiscal year 1991/1992 were maintained at the same level as in the previous fiscal year. Similarly, revenues were not expected to be much different. However, some changes have taken place in the composition of capital outlays, in favour of spending on public and economic services and relatively less on public works and construction, as infrastructure facilities have almost been completed.

It is noteworthy that expenditures on the North Field Gas Project, whose total cost is expected to amount to over $7 billion, do not appear in the budget. The budget of 1990/1991 does not show the $1.3 billion spent on the first phase of the project, and the budget of 1991/1992 does not show the estimated $2 billion cost of the second phase. Financing both phases of the project has been made partly from oil revenues not posted in the budget, and partly from foreign commercial borrowing and export credit. Thus, the published budget does not give a complete picture of government finances.

Table 4. Oman: Five-Year Plan budget, 1991-1995
(Millions of Omani rials)

	Third Five-Year Plan 1986-1990[a]	Fourth Five-Year Plan 1991-1995[b]
Revenues	6 978	8 571
Oil[c]	5 535	6 586
Non-oil	1 443	1 985
Expenditures	8 577	9 450
Current	6 595	7 214
Development	1 825	2 107
Support to private sector	157	129
Deficit	1 599	879
Financing: Reserve funds	1 346	450
Government bonds[d]	-	429
External grants and loans	295[e]	

Source: Central Bank of Oman.

a/ Actual.
b/ Projected.
c/ After withdrawals for reserve funds.
d/ Also called "sale of government assets".
e/ Leaves net deficit of RO 42 million.

5. Saudi Arabia

In May 1991, Saudi Arabia signed for the first time an agreement for a loan of $4 billion with 20 international banks to help finance its 1991 budget deficit, estimated at around $20 billion, or $4 billion over the previous year's deficit. The loan was made to avoid a further drawdown of the country's foreign reserves, which have come under pressure as a result of the Gulf crisis. Borrowing by Saudi Arabia has not been limited to help finance the budget deficit, but also to finance spending plans of major State-owned corporations, thus keeping foreign borrowing technically off-budget.

In 1991, Saudi Arabia also borrowed on the domestic market by signing an agreement with domestic banks for a loan of $2.5 billion, on terms similar to those of the foreign loan. Another medium resorted to for financing the budget deficit are negotiable treasury bills, issued weekly by the Saudi Arabian Monetary Agency (SAMA) to replace the so-called Bankers' Security Deposit Accounts (BSDA), aimed at controlling the country's commercial-bank liquidity. The treasury bills are intended to cover the Government's

Table 5. Qatar: budget, 1989/1990-1991/1992
(Millions of United States dollars)

	1989/1990		1990/1991		1991/1992	
	Budget	Actual	Budget	Estimate	Budget	Forecast
Total revenues	1 603	2 488	2 139	3 180	2 318	2 900
of which: Oil	...	2 150	...	2 800	...	2 500
Total expenditures	3 154	2 849	3 217	3 300	3 216	3 300
Deficit	1 551	361	1 077	120	898	400

Source: Qatar Monetary Agency, 13th and 14th Annual Reports; Middle East Monitor, vol. 1, No. 12, December 1991, p. 137.

short-term cash flow problems, with long-term financing needs continuing to be met through government development bonds and syndicated loans; the former were issued for the first time in mid-1988, but being illiquid, they were unpopular with the banks.

Government departments and agencies operated in 1991 without budget guidelines on expenditures; this was due on the one hand to uncertainty regarding oil prices and revenues -- although the latter increased by over $13 billion over the previous year -- and on the other hand to the country's huge commitments related to the Gulf crisis and war. The 1990 budget was, in effect, rolled over to 1991, for which no formal budget was issued, thus confronting the Government with the task of having to balance conflicting expenditure priorities. The priorities in question were soaring defence expenditures, payments to the country's allies in the Gulf crisis, agricultural subsidies, and the development and maintenance of the country's infrastructure. Comparing the budgets of 1990 and 1991 with earlier budgets is difficult due to the impact of the Gulf crisis on Saudi finances. The last normal year for which actual spending was officially published, 1989, shows a level of spending of 145 billion Saudi riyals (SRl) ($38.7 billion) and a deficit of SR 30.4 billion (table 6).

Considering the official Saudi budget and a rate of inflation of 1-2 per cent during the two years prior to the Gulf crisis, there would not seem to have been a significant change in the overall level of expenditures, while the budget deficit shrank. The level, in nominal terms, of defence spending in the budget appears to have been maintained at its 1989 level in the subsequent three years. The decline in budget project spending may imply that the arms-for-oil transactions remain off-budget, and that State-owned corporations will have to rely on commercial borrowing rather than government assistance.

The Government's intention to promote the role of the private sector in the country's development finds strong expression in the reduced contribution of the public sector to the financing of the Fifth Development Plan (1990-1995). The contribution of the private sector is planned to increase by

around one fourth to 37 per cent of total capital requirements of the Plan, estimated at SRl 336 billion, or a mere 2 per cent below that of the Government. The rest of the capital requirements of the Plan are divided between State-owned enterprises (15 per cent) and specialized credit institutions (9 per cent). While the bulk of government project spending during the Plan will be directed to services (64 per cent), utilities (19 per cent) and transportation (15 per cent), the private sector's involvement will mainly be in finance and trade (25 per cent), petrochemicals and other manufacturing (20 per cent) and agriculture (7 per cent).

6. United Arab Emirates

In recent years, the budget of the United Arab Emirates was not published until late in the year of reference. Therefore, government agencies were allowed monthly expenditures equivalent to one-twelfth of the previous year's allocation until the new budget was approved. In 1990 and 1991, the federal budget came under pressure as a result of additional expenditures related to the Gulf crisis and war. Although these additional expenditures, estimated at around $5 billion in 1990 and $4 billion in 1991, have been more than compensated for by the increase in oil revenues to $15.5 billion in 1990 and around $12 billion in 1991, the budget deficit in 1991 (1.2 billion dirhams [Dh]) was almost double that of the previous year (Dh 0.67 billion) (table 7).

However, the deficit in 1990 was the lowest since 1986; the peak of Dh 2.77 billion being in 1987. The comparatively low budget deficit in 1990 resulted from a sharp rise in revenues while the level of expenditures remained virtually unchanged from the year before.

The projected budget deficit for 1992 is three and a half times higher than in 1991; the latter being almost double the deficit of 1990. While revenues are projected to increase only slightly, from Dh 15.2 billion in 1991 to Dh 15.7 billion in 1992, expenditures are projected to increase by over 21 per cent, from Dh 16.4 billion in 1991 to Dh 19.9 billion in 1992.

The bulk of revenues consists of contributions by Abu Dhabi (the biggest Emirate), which provides annually between 70 and 80 per cent of total budget revenues, followed by Dubai with between 10 per cent and 15 per cent; the balance comes from the other Emirates as well as other sources, such as taxation and duties.

The federal budget alone, however, does not reflect the full picture as far as fiscal developments are concerned. Both Abu Dhabi and Dubai run separate budgets and often consider funding federal projects directly. In addition, the budget reflects neither activities nor priorities in project expenditures, as these are normally carried out within the budgets of the individual Emirates. Furthermore, the federal budget does not reflect expenditures for military and security purposes, since these are also funded through the budgets of the individual Emirates.

Table 6. Saudi Arabia: budget, 1988-1992
(Billions of Saudi riyals)

	1988		1989		1990[a]		1991[a]		1992
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
Expenditures	141.2	134.0	141.0	145.0	143.0	236.2[b]	143.0	236.2[b]	181.8
Defence and security	50.8		51.0		51.9		51.9		54.0
Project spending	60.8				49.4		40.4		52.0
Revenues	105.3	84.6	116.0	114.6	118.0		118.0		151.0
Oil	73.5				76.0				
Non-oil	31.8				42.0				
Deficit	35.9	49.4	25.0	30.4	25.0		25.0		30.0

Source: *Middle East Monitor*, vol. 2, No. 1, January 1992.

a/ The 1990 budget was rolled over to 1991, for which no formal budget was issued.
b/ The amount represents half of the SRl 472.36 billion listed as total expenditures for 1990 and 1991.

Table 7. United Arab Emirates: budget, 1986-1992
(Billions of dirhams)

	1986	1987[a/]	1988	1989	1990	1991	1992[b/]
Revenues	12.84	11.07	12.42	12.84	14.94	15.20	15.70
Emirates' contribution	11.81	9.91	11.04	11.34	12.80	13.17	...
Federal revenues	1.03	1.16	1.38	1.50	2.18	2.08	...
Expenditures	14.02	14.42	14.26	14.65	15.65	16.40	19.90
Deficit	1.19	3.35	1.84	1.81	0.67	1.20	4.20

Source: Central Bank of the United Arab Emirates.

a/ The 1987 budget was revised with revenues totalling Dh 11.66 billion and a lower deficit amounting to Dh 2.77 billion.

b/ Projections.

B. Other ESCWA countries

The efforts of this group of countries to significantly cut their large budget deficits have not been very successful. They have been unable to raise considerably their domestic revenues through appropriate tax policies and better collection methods, or to significantly cut down spending, owing to difficulties in reducing major items of current expenditures such as defence, subsidies, debt-service payments and wages and salaries. The IMF has urged a number of these countries, especially those with debt repayment problems such as Egypt and Jordan, to drastically reduce the ratio of the budget deficit to GDP as a basic adjustment measure. Recent budget estimates reflect attempts to lower budget deficits; however, it remains to be seen whether these efforts will succeed and be maintained.

Budget estimates for 1990 and 1991 have generally maintained the increase in the level of expenditures below inflation rates, thus reducing spending in real terms. In Jordan, expenditure estimates, which were cut by 1.8 per cent in 1989, rose marginally in 1990 and 1991. Jordan froze wages and salaries in the public sector in both years, but allotted the amount of 48 million Jordanian dinars (JD) for their increase in 1992, and reduced expenditures on subsidies by around 5 per cent in 1990 and 1991 and cut development expenditures. Egypt has also cut expenditures on subsidies which exert a heavy burden on the country's budget.

On the revenue side, Egypt and the Syrian Arab Republic, both small oil producers, have benefited from higher oil prices as a result of the Gulf crisis. Both countries, in addition to Jordan and Yemen, have been attempting to increase their revenues from taxes. Egypt reduced tax concessions and improved tax collection methods. In the wake of the economic reforms agreed upon with the International Monetary Fund (IMF), Egypt also replaced the

consumption tax by a 10 per cent sales tax. Jordan is currently considering increasing domestic revenues through the imposition of a value added tax and raising the yield from income taxes.

Following is a summary of fiscal developments in selected ESCWA non-GCC countries.

1. Egypt

The recent change in the format of the Egyptian budget makes it difficult to derive a consistent set or series of figures. Moreover, Egypt's Ministry of Finance runs well over a year behind in reporting actual revenues and expenditures. The budget deficit was in excess of 20 per cent of GDP throughout most of the 1980s.

In 1989, major steps were undertaken to reduce the budget deficit. Prominent among these steps have been an increase in the prices of petroleum products and electricity by 30 per cent, an increase in the sales tax on some luxury items by 25 per cent, a doubling of stamp duties and imposition of a tax on incomes of civil servants seconded to Arab countries. In addition, the 2-piastre loaf was replaced by a 5-piastre loaf, and the exchange rate for customs valuation was brought in line with the commercial bank rate, although this measure was offset by a reduction in tariff rates.

Spurred by IMF recommendations, the Government started looking in 1990 for additional means to further reduce the 1990/1991 budget deficit. The IMF was urging the implementation of a more effective system of personal and company tax and a broader sales tax. In previous fiscal years, these taxes had barely made up a quarter of government revenues, the remainder of revenues originating from externally-linked sources, such as import duties, Suez Canal dues, foreign loans and oil exports. In the last few years, revenues from these sources have not improved significantly. In fact, they have fallen behind the expansion in government expenditures.

Planned expenditures in the budget ending June 30, 1991 are set at 41.2 billion Egyptian pounds (LE) (table 8), which is equivalent to $20.6 billion using the Central Bank exchange rate of $1.00 = LE 2.00. Expenditures in the 1990/1991 budget are higher than those of 1989/1990 by around 23.4 per cent. A major part of the increase is attributed to external debt servicing, estimated to be over LE 4.3 billion and increasing to around LE 8.2 billion in fiscal year 1991/1992. However, the situation has drastically changed with the forgiveness of over $20 billion of Egypt's external debt in the wake of the Gulf crisis. The result is expected to be a decline in expenditures and consequently in the budget deficit, if other projected budget positions are maintained. Allotments for direct State subsidies, however, have risen by around 46 per cent to over LE 4.5 billion, with the largest component, LE 2.2 billion, benefiting foodstuffs, much of which must be imported. Of this amount, about one billion Egyptian pounds goes to subsidizing bread.

Wages and salaries constitute the major item in current expenditures. While wages and salaries have constituted around one third of total current expenditures in the fiscal years 1987/1988 to 1989/1990 (table 9), they are projected to constitute around one sixth of current expenditures in the 1990 1991 and 1991/1992 budgets.

Table 8. Egypt: budget projections, 1990/1991 and 1991/1992
(Millions of Egyptian pounds)

	1990/1991	1991/1992
Expenditures	41 200	54 431
Wages and salaries	7 140	8 288
Defence	3 100	3 300
Subsidies	3 100	4 520
Local debt, interest and principal	6 140	10 100
Foreign debt, interest	2 222	5 536
Foreign debt, principal	2 121	2 656
Debt of public corporations	2 656	2 836
Revenues	37 500	50 343
Taxes	7 915	10 710
Customs	3 780	5 404
Sales tax[a/]	4 200	5 959
Suez Canal dues	1 245	2 368
Oil revenues	1 680	3 389
Deficit	3 775	4 088

Source: Al-Ahram Al-Iktisadi, 22 December 1991 (in Arabic).

a/ Replaces consumer tax.

Recent reforms in Egypt's tax collection system are intended to bring about a significant increase in tax revenues, namely from LE 7,915 million in fiscal year 1990/1991 to LE 10,710 million in fiscal 1991/1992. A similar development is seen in the projected increase in sales tax revenues, from LE 4,200 million to around LE 6,000 million over the same interval. Actually, the sales tax, which has replaced the former consumption tax, in agreement with the IMF in May 1991, is to constitute a major source of budget revenues in the future, in that it would reduce tax evasion and widen the tax collection base. Revenues from sales tax are expected to make up at least one fifth of total budget revenues in fiscal year 1994/1995.

EGYPT: Structural Adjustment Programme

Following more than three years of negotiations, the IMF approved on May 17, 1991 the long-awaited stand-by credit agreement with Egypt. According to the agreement, the IMF lends Egypt 278 million special drawing rights (SDRs), equivalent to $372 million, in three tranches over 18 months for the implementation of an economic structural adjustment programme. The agreement has paved the way for a $300 million loan from the World Bank, and for the establishment of an externally-financed "social fund" of up to $500 million to cushion the impact of the structural adjustment programme, especially on

Table 9. Egypt: budget, 1987/1988-1989/1990
(Millions of Egyptian pounds)

	1987/1988 Actual	1988/1989 Actual preliminary	1989/1990 Actual (11 months)
Expenditures	33 460	33 400	22 613
1. Current expenditures	16 198	17 432	13 814
Wages and salaries	4 570	5 225	4 985
Other 11,628	12 207	8 829	
of which: Subsidies	3 915	2 573	1 320
Defence	3 206	2 984	2 364
Interest on public debt	2 304	3 011	2 061
Pensions	1 094	1 366	1 452
2. Investment expenditures	13 522	11 480	4 845
Public administration	2 731	2 939	1 925
Economic authorities	6 712	5 158	2 919
Public sector	4 079	3 383	-
3. Capital transfers	3 740	4 488	3 954
Public debt obligations	1 762	1 861	1 435
Financing economic authorities deficit	1 079	1 705	2 140
Financing public-sector deficit	82	115	47
Miscellaneous	817	807	332
Revenues	19 020	21 267	15 852
1. Current revenues	13 485	15 625	13 571
a. Sovereign revenues	8 458	10 195	10 186
of which: Taxes	3 300	4 058	4 350
Customs and duties	2 378	2 848	2 536
Excise taxes	1 894	2 407	2 437
b. Current revenues and transfers	5 027	5 430	3 385
of which: Petroleum and Suez Canal	1 229	1 453	728
Economic authorities	104	144	63
Public sector	244	284	294
2. Capital revenues	5 535	5 642	2 281
Revenues from investment (Self-financing & foreign grants)	4 310	4 549	2 131
Revenues from capital transfers (Self-financing & foreign grants)	1 225	1 093	150
Deficit	14 440	12 133	6 761

Source: Central Bank of Egypt, Annual Report 1989/1990.

Table 10. Egypt: financing the budget deficit, 1987/1988 – 1989/1990
(Millions of Egyptian pounds)

	1987/1988 Actual	1988/1989 Actual preliminary	1989/1990 Actual (11 months)
Expenditures	33 460	33 400	22 613
Revenues	19 020	21 267	15 852
Deficit	14 440	12 133	6 761
Financing			
External financing	5 632	3 609	928
Domestic savings vessels a/	2 462	3 372	1 716
Other non-bank sources	1 285	394	75
Banking system (net deficit)	5 061	4 758	4 042
Banking system (net deficit)	5 061	4 758	4 042
Ratio to GDP, at current prices b/ (percentage)			
Overall deficit	26.5	18.8	
Net deficit	9.3	7.4	
Total expenditures	61.3	51.6	
Current expenditures	29.7	26.9	
Investment expenditures	24.8	17.7	
Total revenues	34.9	32.9	
Sovereign revenues	15.5	15.8	

Source: Central Bank of Egypt, Annual Report 1989/1990.

a/ Excluding saving certificates for 1989/1990.

b/ GDP at current prices is estimated at LE 54,553 million for 1987/1988 and 64,688 million for 1988/1989.

low-income groups. Furthermore, the agreement with the IMF paved the way for forgiveness of official debt (Paris Club) and rescheduling of commercial debt (London Club).

The main features of the adjustment programme include:

1. The budget deficit for fiscal year 1991/1992 was to be reduced to 10 per cent of GDP, down from over 17 per cent in fiscal year 1990/1991 and the years before. Further efforts are to be made for a gradual reduction of the ratio of the budget deficit to GDP to 3.5 per cent in fiscal year 1994/1995. This will be achieved initially through revenue-enhancing measures, and later through spending cuts and improvement of the fiscal structure.

2. The interest rate is to be determined by market forces rather than by the Central Bank. Credit growth will be curtailed, particularly to the public sector, although private-sector credit will be expanded within the overall monetary target. To control overall credit growth, interest-rate ceilings

will be lifted. A related issue has been the introduction of a three-month treasury bill with the auction rate providing the reference point for the Central Bank discount rate.

3. A unification of the exchange rates and the convertibility of the Egyptian pound were to be realized not later than February 1992. Until then, two exchange rates against the United States dollar would continue to exist: one determined by the market and the other by the Central Bank. The latter applied to revenues from the Suez Canal, exports of oil, cotton and rice. The Central Bank rate was to be within 5 per cent of the market rate.

4. The consumption tax was to be replaced by a 10 per cent sales tax to enhance revenues, with essential commodities exempted from this tax.

5. Energy prices were to be adjusted over a period of five years to reach international levels, fully cover production costs, and restrain domestic demand in order to increase exports of energy and revenues.

6. Reform was to be made of the external trade system, including a reduction in import tariffs (which currently range up to 240 per cent) to 10-80 per cent over the next three years. Furthermore, restrictions on the import and export of certain items will be relaxed and gradually abolished.

The primary objective of the structural adjustment programme[7/] is to create a market-based, outward-oriented economy over the medium term, showing steady economic growth, sustainably low inflation and an improved balance of payments leading to a reconstitution of international reserves and the normalization of financial relations with creditors. The programme also envisages a growing private sector and a scaled-down public sector operating in a competitive environment free of government intervention. Furthermore, the programme implies the lifting of all controls on agricultural exports. This measure is expected to promote the export of cotton, the major agricultural crop of the country, as it would make the industry more competitive. The introduction of a free market for the cotton industry, especially as regards pricing and production, paves the way for a possible reopening of the Cotton Commodity Exchange, which prior to the 1952 revolution was one of the world's largest. In addition, the programme envisages the establishment of a capital market. The liberalization of the interest rate and the issuance of short-term treasury bills should help constitute the foundation for this market. In this regard, the Government has issued new legislation exempting securities from income tax and eliminating the 7 per cent interest ceiling on bonds and allowing companies to issue anonymous bearer bonds. The capital market is intended to be a vehicle for placing 49 per cent of the shares of public-sector companies assigned for privatization.

The economic problems of Egypt are complex and deep-rooted. The economy suffers from structural weaknesses and distortions due to the numerous controls, subsidies, regulations and restrictions and inefficient bureaucracy. Many of the State-owned enterprises are inefficient and not competitive. The price system has been distorted for many years, as a result of controls and subsidies, so that it does not provide producers and consumers with the signals they need to make good economic decisions.

7/ IMF, Survey, vol. 20, No. 11 (27 May 1991).

All in all, the policy issues and measures of the structural adjustment programme include: price liberalization and deregulation of public industrial and agricultural production and of the transport sector; public enterprise reform and phased privatization; adjustment of energy prices to reach international levels and cover production costs; investment decontrol linked to price and import liberalization; exchange rate reform to create a free market for foreign exchange; trade liberalization; monetary reform to encourage savings, ensure an efficient allocation of resources and make monetary policy more active; and finally, bank supervision reform to strengthen the position of the banking sector.

The objective of the agreement, from the IMF's point of view, is to create domestic and international confidence in Egypt's economy and to establish the prerequisites for achieving progress over the medium term. However, the structural adjustment programme itself is seen as constituting a decisive move to discard much that is harmful of the old economic system of Egypt, to define for the State a more effective role in terms of economic management, and to move toward a more efficient economic system in which the private sector would have a bigger role to play. Furthermore, the programme should enhance the role of market forces in the allocation of resources and open up the Egyptian economy to the outside world.

The impact of the measures contained in the structural adjustment programme are already evident in several areas. The liberalization of interest rates has already been implemented, and exchange rate reform has been completed ahead of schedule. Indeed, the 5 per cent margin between the market exchange rate and the Central Bank rate remained stable during the first few months following the agreement with the IMF, after which it was disregarded.

The free floating of the Egyptian pound in the exchange market and the stability of its exchange rate against the United States dollar have strengthened the pound and increased the demand for it. Data from the Central Bank of Egypt[8/] indicate that for the first time in many years private deposits denominated in Egyptian pounds have exceeded those denominated in United States dollars. Furthermore, the liberalization of the interest rate has put a squeeze on bank credit with the treasury bill auction absorbing liquidity. Additional credit controls in the form of more restrictive reserve liquidity and capital adequacy ratios were introduced in May 1991, underlying the Central Bank commitment to a tight monetary policy.

The budget deficit for fiscal year 1991/1992 is expected to shrink to 7.5 per cent of total expenditures, down from over 36 per cent in fiscal year 1988/1989 and 43 per cent in the year before. A successful implementation of the structural adjustment programme will depend ultimately on the Government's ability to contain the budget deficit and to gradually reduce its ratio to GDP from over 17 per cent prior to the IMF agreement to 3.5 per cent in fiscal year 1994/1995.

8/ Al-Ahram Al-Iktisadi, 15 December 1991 (in Arabic).

2. Iraq

The budget for 1991, approved by the Iraqi Government two months after the Gulf War, totals 13.9 billion Iraqi dinars (ID) ($44.6 billion at the official exchange rate). The budget is concerned in particular with reconstruction and subsidizing basic food items such as bread, sugar and rice. Around 25 per cent of the budget allocations for public investments, estimated at around ID 2 billion, have been earmarked for reconstruction.

According to official Iraqi announcements, as indicated in Iraq's letter to the United Nations Secretary-General of 29 April 1991, Iraq's basic requirements for 1991 amounted to approximately $21 billion, as follows: import of foodstuffs and medicine ($2.29 billion), imports of consumer goods and raw materials ($3.72 billion), private-sector capital goods ($1.63 billion), reconstruction of strategic stockpiles of foodstuffs and basic commodities ($908 million), repair of war damage ($2.05 billion) and national development allocations ($10.51 billion). However, with no oil exports and revenues, due to the sanctions imposed by the United Nations against Iraq, to cover these requirements, the 1991 budget has remained rather hypothetical.

3. Jordan

Prior to the Gulf crisis, Jordan relied heavily on ESCWA oil-exporting countries to finance budget deficits. Financial assistance received from these countries, in bilateral form or through national and regional development finance institutions, constituted over 80 per cent of the Government's external receipts, which amounted to $365.5 million in 1988 and $616.1 million in 1989, averaging $610 million during the period 1986-1989.9/

This pattern was disrupted by the Gulf crisis. The obligations of the Government increased sharply, as it had to cope with the financial burdens caused by over 300,000 returnees and reflected in a significant increase in civil expenditures, from JD 498.2 million in 1989 to JD 586.7 million in 1990 and to around JD 640.2 million in 1991 (table 11). Nevertheless, the Government was able to reduce its "pre-financing" budget deficit from JD 137 million in 1989 to JD 94.4 million in 1990 and to only JD 31.6 million in 1991. This happened through a major decline in capital expenditures and continued aid from non-Arab donors as well as domestic revenues, the latter through higher taxation of petrol and higher duties on imports.

Pressed with the problem of rising unemployment, Jordan launched an emergency capital expenditure programme in mid-1991 to inject an additional JD 330 million ($490 million) into the economy. The programme comprises an emergency budget of JD 120 million, together with the capital investment allocations contained in the regular 1991 budget.

The Gulf crisis put a temporary halt to the economic reform programme of Jordan agreed upon with the IMF in 1989. The programme included, among other things, a gradual reduction of the budget deficit/GDP ratio to 5 per cent by

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9/ Calculated from: Central Bank of Jordan, Monthly Statistical Bulletin, December 1991.

Table 11. Jordan: budget, 1986-1992
(Millions of Jordanian dinars)

	1986	1987	1988	1989	1990	1991a/	1992b/
Revenues	670.9	676.8	721.3	855.5	938.2	1 084.4	1 163.0
of which: Domestic	514.4	531.5	544.3	565.4	744.1	7 961.1	...
External assistance	143.7	127.5	115.4	261.7	164.3	236.3	...
Loans repaid	21.8	17.7	21.5	28.9	29.9	52.0	50.0
Expenditures	824.1	875.0	925.9	992.6	1 032.6	1 116.0	1 270.1
of which: Current	570.6	602.6	669.5	749.7	841.4	909.9	940.3
Civil	321.0	349.8	412.2	498.2	586.7	640.2	668.1
Military	249.6	252.8	257.3	251.5	254.7	269.7	272.2
Capital	253.5	272.3	256.3	242.9	191.3	206.1	329.8
Deficit	153.1	198.2	204.6	137.1	94.4	31.6	107.1

Source: Central Bank of Jordan, Monthly Statistical Bulletin, February 1992.; Al-Rai newspaper, 12 December 1992 (in Arabic).

a/ Preliminary.
b/ Projection.

end-1995. The implementation of the economic reform programme was resumed with the Government's announcing of plans in late 1991 for a JD 1.27 billion ($1.91 billion) 1992 austerity budget and a planned deficit of JD 107 million ($160 million), down from the formerly planned deficit of JD 351 million ($519.2 million). The new budget is consistent with the objective of achieving a deficit/GDP ratio of 5 per cent by end-1997, down from around 18 per cent in 1991.

4. Syrian Arab Republic

The second half of the 1980s witnessed austerity budgets in the Syrian Arab Republic with nominal increases in expenditures that were largely offset, in real terms, by a high inflation rate. Assessment of fiscal developments, however, is difficult, as only planned and consolidated budget figures are published. However, efforts to reduce the budget deficit have met with considerable success during the last few years, owing to increased transfers from State enterprises, improved tax collection methods and compression of capital expenditures. Nevertheless, both heavy borrowing by State enterprises to cover their transfers to the budget, and depreciation of the Syrian pound (LS) continued to exert an expansionary effect on the economy.

About 28 per cent of current expenditures in 1989 were for wages and salaries, with a 25 per cent increase in public-sector salaries accounting for most of the overall 18.6 per cent increase in current expenditures. In 1990, current expenditures allocations increased by over 21 per cent over 1989, namely from LS 35.4 billion to LS 43 billion (table 12). An estimated further increase of slightly less than LS 10 billion has been planned for 1991. Investment expenditures, which in 1989 (LS 21.6 billion) were budgeted slightly lower than in 1988, picked up in 1990 to over LS 24.4 billion and are budgeted at over LS 32.3 billion in 1991.

On the revenues side, receipts from taxes and fees have remained almost steady at slightly over one third of total revenues, followed by surpluses generated by public-sector enterprises and borrowing (foreign and domestic), as indicated in table 12.

Table 12. Syrian Arab Republic: budget, 1988-1991
(Millions of Syrian pounds)

	1988	1989	1990	1991 (Budget)
Expenditures	52 378	57 000	67 487	84 689
Current	29 828	35 399	42 994	52 373
Investment	22 550	21 601	24 493	32 315
Revenues	51 544	57 018	67 504	84 690
Taxes and fees	16 790	18 125	22 133	27 720
State sector surpluses	12 071	11 081	13 065	13 078
Borrowing	4 626	6 791	11 176	13 676
Other revenues	18 057	21 021	21 130	30 216

Source: Middle East Economic Survey, 23/30 December 1991.

III. EXTERNAL DEBT

The external debt of the ESCWA region has been on the rise during the 1980s and the first two years of the 1990s, with some highly-indebted member countries rescheduling part of their debt, and others building up arrears. Egypt and Jordan also had to embark on a programme of stabilization and adjustment policies.

The total identified external debt of the ESCWA region increased from around $113 billion in 1985 to over $153 billion in 1990, or by more than one third (table 13), representing around 9 per cent of the total debt of all developing countries in that year of $1,700 billion.

For a number of countries, the debt situation is serious, and in some cases critical, as in Jordan, Egypt, the Syrian Arab Republic and the Republic of Yemen. In these countries, debt service and debt repayments have been rising, with adverse repurcussions perhaps as severe as in other highly-indebted developing countries.

However, following the forgiveness in the wake of the Gulf crisis of a significant portion of the debts owed by Egypt and the Syrian Arab Republic to their creditors, the external debt of Egypt is estimated to have been reduced by about $24 billion, down from $54 billion in mid-1990. Part of the forgiveness of Egypt's debt is, however, related to the progress it achieved in implementing economic adjustment and reform policies supported by the International Monetary Fund and the World Bank. The external debt of the Syrian Arab Republic is estimated to have been reduced by a quarter to around $12 billion, down from over $16 billion at end-1989.

While the major oil-exporting member countries were able to finance their development from national savings and, at the same time, accumulate significant foreign assets, though these were on the decrease during the last few years (table 14), the remaining ESCWA countries had to resort increasingly to foreign borrowing to bridge a large and widening savings-investment gap.

The oil-boom era of the 1970s and early 1980s and the associated massive increase in financial resources availability produced an environment conducive to borrowing which the ESCWA non-GCC countries did not hesitate to resort to. In fact, an estimated 70 per cent of the external debt of these countries originated during that period.

The oil-boom era highlighted the importance of spillovers from GCC countries to other ESCWA countries and their financial interdependence. It has in particular brought forward the susceptibility of the economies of non-GCC ESCWA countries to the level of oil revenues in the latter, which renders their overall economic performance highly dependent on the economic fortunes of ESCWA's GCC countries.

Another factor that has contributed to the rise in the dollar value of the external debt of ESCWA countries has been the sharp fall in the exchange rate of the United States dollar relative to major international currencies, especially during the second half of the 1980s. Large-scale capital outflows have also been an important factor in worsening the problem of external debt

Table 13. ESCWA external debt, 1985-1990
(Millions of United States dollars)

	1985	1986	1987	1988	1989	1990[a]
Total identified debt (TID)	112 966	124 181	139 074	142 859	148 636	153 362
GCC countries: total	37 392	37 917	39 632	41 623	44 932	47 906
Percentage of TID	33.1	30.5	28.5	29.1	30.2	31.2
Other ESCWA countries: total	75 574	86 264	99 442	101 236	103 704	105 456
Percentage of TID	66.9	69.5	71.5	70.9	69.8	68.8
Long-term debt (LTD)	68 973	76 644	87 953	90 170	89 578	90 028
GCC countries: total	9 597	10 043	10 354	8 469	8 138	8 342
Percentage of LTD	13.9	13.1	11.8	9.4	9.1	9.3
Other ESCWA countries: total	59 376	66 601	77 599	81 702	81 440	81 686
Percentage of LTD	86.1	86.9	88.2	90.6	90.9	90.7
Concessional (C)	18 784	20 438	22 965	23 578	25 238	25 316
GCC countries: total	373	469	639	400	748	753
Percentage of C	2.0	2.3	2.8	1.7	3.0	3.0
Other ESCWA countries: total	18 411	19 969	22 326	23 178	24 490	24 563
Percentage of C	98.0	97.7	97.2	98.3	97.0	97.0
Non-concessional (NC)	50 189	56 205	64 987	66 593	64 341	64 713
GCC countries: total	9 224	9 575	9 714	8 068	7 390	7 594
Percentage of NC	19.4	17.4	14.9	12.1	11.5	11.7
Other ESCWA countries: total	40 965	46 630	55 273	58 525	56 951	57 119
Percentage of NC	81.6	82.6	25.1	87.9	88.5	88.3
Short-term debt (STD)	41 167	44 728	47 563	48 790	55 694	58 257
GCC countries: total	26 971	27 329	28 584	32 263	35 831	38 062
Percentage of STD	65.5	61.1	60.1	66.1	64.3	65.3
Other ESCWA countries: total	14 196	17 399	18 979	16 527	19 863	20 195
Percentage of STD	34.5	38.9	39.9	33.9	35.7	34.7
Unidentified items	2 822	2 809	3 565	3 896	3 364	5 077
Service payments (SP)	14 388	13 406	12 186	14 334	14 221	14 527
GCC countries: total	6 540	5 235	5 159	5 908	5 480	5 697
Percentage of SP	45.5	39.0	42.3	41.2	38.5	39.2
Other ESCWA countries: total	7 848	8 171	7 027	8 426	8 741	8 830
Percentage of SP	54.5	61.0	57.7	[illegible]	61.5	60.8

Source: Organization for Economic Cooperation and Development (OECD), Financing and External Debt of Developing Countries, 1990.

a/ ESCWA calculation based on national and international sources.

Table 14. Foreign assets of Arab oil-exporting countries, 1983-1991[a/]
(Billions of United States dollars; percentage)

	1983	1984	1985	1986	1987	1988	1989	1990	1991[b/]
A. GEOGRAPHICAL DISTRIBUTION									
United Kingdom (total)	42.8	39.8	44.2	43.2	46.4	47.3	44.2	35.3	33.2
Sterling bank deposits	3.6	3.5	4.4	4.6	5.2	4.1	3.5	2.5	1.4
Eurocurrency bank deposits	32.4	30.9	32.8	29.9	28.7	31.3	30.0	24.9	27.9
Government papers	2.5	1.7	2.1	3.0	4.1	3.8	2.8	2.6	1.6
Other assets [c/]	4.1	3.8	4.9	5.5	8.4	8.1	7.9	6.0	2.3
Percentage of total assets	14.2	13.3	13.7	12.7	13.4	14.4	13.9	13.3	14.1
United States (total)	63.7	62.6	60.3	57.6	50.2	34.5	30.6	22.5	14.6
Bank deposits	13.1	15.9	16.4	16.9	15.7	11.2	11.1	5.3	2.4
Government papers	25.7	23.4	22.3	20.8	16.2	18.1	16.2	14.1	9.3
Other assets[c/]	24.9	23.3	21.6	19.9	18.1	5.2	3.3	3.1	2.9
Percentage of total assets	21.1	21.0	18.7	16.9	14.4	10.5	9.6	8.5	6.2
Other industrial countries (total)	93.1	92.2	107.7	124.3	133.0	129.0	124.2	103.0	92.7
Domestic-currency bank deposits	5.6	5.2	6.0	8.4	8.8	9.2	10.3	7.3	3.2
Eurocurrency bank deposits	35.2	35.8	38.8	34.4	35.0	36.8	31.3	24.2	19.2
Government papers	31.4	22.6	27.0	28.8	29.8	28.3	27.8	22.3	22.2
Other assets[c/]	20.9	28.7	35.8	52.9	59.3	54.7	54.5	49.2	48.1
Percentage of total assets	30.8	30.7	33.4	36.6	38.3	39.3	39.1	38.9	39.5
IMF and World Bank	26.7	23.9	26.1	29.6	30.1	32.2	33.7	33.5	30.8
Credit to non-banks	5.7	6.3	8.4	9.1	9.43	10.2	2.2	5.1	2.2
Placements with LDCs	42.9	43.8	45.2	45.2	45.2	45.0	45.7	46.0	46.3
Bank deposits in offshore centres	27.0	31.4	29.9	31.0	32.9	30.0	27.3	19.2	12.1
Total identified assets	301.9	300.0	321.8	340.0	347.2	328.3	317.9	264.6	231.9

Table 14. (continued)

	1983		1984		1985		1986		1987		1988		1989		1990		1991b/	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
B. TYPE OF ASSETS																		
Bank deposits	22.3	7.4	24.6	8.2	26.8	8.3	29.9	8.8	29.7	8.6	24.5	7.5	24.9	7.8	15.1	5.77	7.0	3.0
Eurocurrency deposits	67.6	22.4	66.7	22.2	71.6	22.2	64.3	18.9	63.7	18.3	68.1	20.7	61.3	19.3	48.4	18.2	47.1	20.1
Government papers	59.6	19.7	47.7	15.9	51.4	16.0	52.6	15.4	50.1	14.4	50.2	15.3	46.8	14.7	39.0	14.7	33.1	14.1
Placements with LDCs	42.9	14.2	43.8	14.6	45.2	14.0	45.2	13.3	45.2	13.0	45.0	13.7	45.7	14.4	46.0	17.4	46.3	19.7
Other assetsc/	49.9	16.5	55.8	18.6	62.3	19.4	78.3	23.0	85.8	24.7	68.0	20.7	66.0	20.8	58.3	22.0	53.3	22.7
Credit to non-banks	5.7	1.9	6.3	2.1	8.4	2.6	9.1	2.7	9.4	2.7	10.2	3.1	12.2	3.8	5.1	1.9	2.2	14.4
IMF and World Bank	26.7	8.8	23.9	8.0	26.1	8.1	29.6	8.7	30.1	8.7	32.3	9.8	33.7	10.6	33.5	12.7	33.8	5.2
Bank deposits in offshore centres	27.0	8.9	31.4	10.4	29.9	9.3	31.0	9.1	32.9	9.4	30.0	9.1	27.7	8.6	19.2	7.2	12.1	5.2
Total	301.9	100.0	300.0	100.0	321.8	100.0	340.0	100.0	347.2	100.0	328.3	100.0	317.9	100.0	264.6	100.0	234.9	100.0
Minus																		
Official foreign reserves	41.6		36.5		41.1		34.7		38.3		35.2		30.3		16.1		12.2	
IMF and World Bank	26.7		23.9		26.1		29.6		30.1		32.3		33.7		33.5		33.8	
Placements with LDCs	42.9		43.9		45.2		45.2		45.2		45.0		45.7		46.0		46.3	
Total foreign investments	190.7		195.8		209.4		230.5		233.6		215.8		208.2		169.0		142.6	

Source: ESCWA calculations based on: Bank of England, Quarterly Reports; various publications of the Bank of International Settlements; Organisation for Economic Cooperation and Development (OECD); Morgan Guaranty Trust Company; and others.

a/ Including GCC countries, Libyan Arab Jamahiriya and Algeria, but excluding Iraq for lack of data.
b/ Estimates.
c/ Including equities, properties and other assets.

of certain ESCWA countries. As is the case in many developing countries, capital flight from the ESCWA region has been associated with over-valued exchange rates, high inflation, low or negative real interest rates, and, in general, lack of suitable domestic financial assets with attractive returns. Political considerations and inadequate trust-inspiring economic and financial policies have also played a prominent role in capital flight. With sizeable private financial resources transferred abroad, most non-GCC ESCWA countries resorted to foreign borrowing to supplement domestic savings and finance budget and balance-of-payments deficits.

The maturity structure of external debt varies from one ESCWA country to another. A significant distinguishing feature is whether the debt is related to trade financing or development financing. The external debt of ESCWA's GCC countries is generally related to private-sector trade finance and consists mostly of short-term (bank and non-bank) debt (table 13), while the external debt of other ESCWA countries is generally related to development finance, with long-term maturities and different categories of creditors.

With a significant part of the external debt of the non-GCC countries being official or officially supported, there exists no secondary market for it. Despite the soft-term nature of a major portion of this debt, the debt has been imposing a major burden on the economy and finance of the countries concerned.

The external debt of the non-GCC countries has assumed serious proportions, approaching critical levels in some of them, including Jordan, the Republic of Yemen, Egypt and the Syrian Arab Republic. With a large segment of the debt concentrated in the most populous of these countries, namely Egypt, the debt burden has widespread welfare implications.

However, in the last few years, a new sense of realism in tackling the debt problem has emerged, with the adoption of debt-management strategies aimed at improving the debt-service profile in the face of a shrinking supply of funds. Import restrictions, fiscal restraints and economic reforms have been introduced in an effort to tackle external imbalances and to restructure fiscal accounts.

A. Egypt

Egypt's total external debt at end-1989 was estimated at $52.2 billion, increasing to around $54 billion by mid-1990. Over 79 per cent ($41.3 billion) of this debt originated from OECD countries and financial markets, mostly ($31.9 billion) in the form of official development assistance (ODA) and non-bank trade claims as well as guaranteed bank debt. Egypt's external debt to former Eastern-bloc countries has dropped significantly, from over $7 billion in the mid-1980s to just $3 billion at the end of 1990, or to less than 6 per cent of total external debt, compared with over 16 per cent in 1985. Repayment of long-term debt due in 1990 was around $3.68 billion or 26 per cent of the country's current expenditures. Egypt's commercial debt, excluding $2.4 billion of unidentified guaranteed bank claims, has been considerable, amounting to around 22.2 per cent ($11.62 billion) of total external debt.

The position taken by Egypt during the Gulf crisis led to a major reduction in the external debt owed to OECD countries and to a rescheduling of a major part of its commercial debt. The United States forgave Egypt for foreign military sales (FMS) debt of around $6.7 billion, including arrears of over $855 million. The forgiveness process involved two stages: A "write-down" stage and a "write-off" stage in order to soften the effects on the United States budget and to permit the United States President to meet the pledge in full. The write-down was according to market rates during the first six months, followed by a write-off of the debt at its written-down value. During the six months, Egypt benefited from a moratorium on interest and principle of military debt repayments. The market value was considered at 10 per cent of the face value, which was well below the secondary market value for the Egyptian debt calculated at that time at around 18 per cent of face value. The FMS debt was commercial debt with interest rates of usually over 18 per cent. Its forgiveness reduced Egypt's debt outstanding to the United States by more than half, to around $5.8 billion as of end-September 1990. The remaining debt is mostly concessional and constitutes over 90 per cent of total debt outstanding. However, the combined commercial debt repayments for the American Export-Import Bank (EXIM) and the Commodity Credit Corporation (CCC), which stood at $326.5 million in 1991, will gradually decrease to $84.8 million in 1994 (table 15a and 15b).

The position adopted by Egypt during the Gulf crisis also resulted in the GCC countries' writing off over $7 billion of the debt owed to them by Egypt. The conclusion of the stand-by facility agreement with the IMF in May 1991 also had far-reaching effects on Egypt's external debt, the most important of which has been the Paris Club decision regarding the write-off of the $20.2 billion Egyptian debt owed to its members. The Paris Club decision is being implemented over a three-year period, whereby 15 per cent of the debt was to be written off on July 1, 1991, 15 per cent at the end of 1992 and another 20 per cent on July 1, 1994, when a new agreement is expected to be signed with the IMF. The remaining 50 per cent of Egypt's debt owed to the Paris Club member countries will be rescheduled, and interest on the non-concessionary portion of the debt will be cut by 30 per cent. The Paris Club decision to spread the 50 per cent write-off of the Egyptian debt over three years has been made to ensure that Egypt complies fully with the terms of its agreement with the IMF. Nevertheless, the write-off of the Egyptian debt reduces significantly both the debt service payments and the pressure on the country's economy during the next few years.

As a result of the above measures of forgiveness, cancellation and rescheduling, Egypt's external debt as of mid-1991 is estimated to have amounted to around $24 billion, down from around $54 billion at mid-1990. Of the remaining debt, around $9.5 billion is commercial debt and $3 billion non-concessional multilateral debt. The rest, around $11.5 billion, is bilateral and concessional debt, of which around $3 billion is owed to the former Eastern-bloc countries.

B. Iraq

Iraq's total identified external debt stood at around $23 billion at the end of 1989, of which over 27 per cent ($6.2 billion) was owed to former Eastern-bloc countries (table 17). Around 71 per cent ($16.1 billion) of Iraq's external debt is long-term, most of which non-concessional ($15.8 billion), with around $9.2 billion owed to OECD countries and financial

Table 15a. Egypt's debt to the United States
(Millions of United States dollars)

	Principal outstanding (Sept. 1990)	Arrears (Sept. 1990)	Total debt outstanding (Sept. 1990
Foreign military sales (FMS)	5 871.16	855.34	6 726.51
ESF/DA[a/]	2 883.73	67.77	2 631.51
PL 480[b/]	2 817.13	5.49	2 822.62
Commodity Credit Corporation (CCC)	230.65	0.00	230.65
Export-Import Bank (EXIM)	79.81	7.65	87.46
Total	11 562.48	936.26	12 498.74
FMS-debt forgiveness	5 871.16	855.34	6 726.51
Total after forgiveness	5 691.32	80.92	5 772.23

Table 15b. Egypt's debt payments to the United States
(Millions of United States dollars)

	1991	1992	1993	1994
Concessional	237.5	265.1	310.1	309.0
ESF/DA[a/]	127.1	137.2	162.6	161.8
PL 480[b/]	110.4	127.8	147.5	147.2
Commercial	326.5	230.5	160.8	84.8
EXIM	27.1	26.4	27.5	21.8
CCC	299.3	204.1	133.4	63.3
Total	564.0	496.0	471.0	394.0

Source: United States Agency for International Development, quoted in *Middle East Economic Survey*, vol. xxxv, No. 8 (25 November 1991).

a/ Economic Support Fund/Development Assistance (food commodities only).
b/ Public Law 480.

Table 16. Egypt: external debt, 1985-1989
(Millions of United States dollars)

	1985	1986	1987	1988	1989
Total identified debt	43 310	46 143	50 793	51 098	49 551
Long-term debt	35 126	36 343	39 609	40 593	38 060
Concessional	11 910	12 846	14 241	14 722	15 161
Non-concessional	23 217	23 497	25 368	25 871	22 899
Short-term debt	7 117	8 526	9 347	8 525	9 835
Other identified liabilities	1 066	1 274	1 837	1 980	1 656
Service payments	3 989	3 478	2 513	4 328	4 225

Source: OECD, *Financing and External Debt of Developing Countries: 1990 Survey*, 1991.

markets therein, mostly in the form of officially supported as well as guaranteed bank credit. The concessional long-term component in Iraq's external debt has been relatively unimportant, amounting to only $350 million in 1989. The reason for this low level is the high country-credit risk rating resulting from the country's war with Iran. This has been also reflected in Iraq's relatively high short-term debt/long-term debt ratio which in 1989 stood at around 41 per cent. The sharp rise in Iraq's long-term debt reflects the rise in the country's bank borrowing, which jumped from around $5.6 billion in 1985 to $9.9 billion in 1988 and further to $11.8 billion in 1989. Debt service payments due in 1989 were put at $2.6 billion, and are estimated to have been $4.5 billion in 1990 and $5 billion in 1991, the latter including interest arrears to commercial banks, estimated at $580 million.

However, a letter of the Iraqi Government submitted to the United Nations Secretary-General on 29 April 1991 indicates that Iraq's total external debt as of end-1990 amounted to $42.1 billion, excluding interest payments due and grants from GCC countries.[10/] The letter states that the problem of Iraq's external debt does not lie solely in its size, which constitutes 65 per cent of the country's GDP, but extends to servicing difficulties also, since 97 per cent of the debt is due in the next 5 years, as follows:

		Millions of United States dollars
Amounts due and not paid up to	end-1991	23 476.8
	1992	4 921.5
	1993	4 824.0
	1994	4 611.7
	1995	2 949.6
Amount due after	1995	1 097.4
Total		42 097.4

Officially announced Iraqi information further indicates that debt-service payments over the period 1991-1995 amount to $75.04 billion, distributed as follows:

(Billions of United States dollars)	1991	1992	1993	1994	1995	1991-1995
External debt service	27.15	10.22	11.66	13.01	13.31	75.35
of which: Installments due	23.46	4.92	4.82	4.61	2.94	40.75
Interest due	3.69	5.30	6.84	8.40	10.37	34.60

10/ *Middle East Economic Survey*, (Cyprus) vol. xxxiv, No. 32 (13 May 1991).

Table 17. Iraq: external debt, 1985-1989
(Millions of United States dollars)

	1985	1986	1987	1988	1989
Total identified debt	12 839	17 039	20 471	20 174	22 752
Long-term debt	8 510	11 433	14 661	14 960	16 146
Concessional	205	277	431	408	350
Non-concessional	8 306	11 156	14 230	14 553	15 797
Short-term debt	4 329	5 606	5 810	5 214	6 605
Service payments	2 135	3 249	2 715	1 900	2 626

Source: OECD, Financing and External Debt of Developing Countries: 1990 Survey, 1991.

C. Jordan

The Jordanian economy has been severely hit by the Gulf crisis. The resulting financial difficulties and economic dislocation caused to the country by the loss of most of its foreign exchange sources rendered Jordan unable to service its debt, estimated at over $8.9 billion[11/] at end-1991 (table 18). Jordan's interest arrears at end-1991 stood at over $200 million, compared with around $70 million the year before. Its debt service obligations were estimated at $1,318 million for 1992, with arrears of around $600 million.

Partial suspension of debt servicing due to both the Paris Club and the London Club of creditors in early 1991 helped ease the cash flow; further relief was provided by a new IMF agreement deferring the implementation of economic adjustment targets from 1993 to 1995. Rescheduling Jordan's commercial debt has been partially successful, as banks insisted that they be paid off before a rescheduling be made. In early 1992, Jordan was able to reach an agreement with the Paris Club creditors, providing for a ten-year postponement of the debt repayment instalments of official debt to Paris Club members. A similar arrangement with the London Club creditors was also in view. Thus, the Kingdom's annual payment burden could ease to $700 million to $800 million until 1993, when it would have to work out fresh rescheduling arrangements for payments due from 1994 onward.

Most of Jordan's external debt has been long term, increasing only slightly over the last three years, namely from $8.5 billion in 1989 to $8.9 billion in 1991 (table 19) due on the one hand to rescheduling and on the other hand to restraint and/or inability to engage in new debt in the wake of the Gulf crisis.

11/ Contracted debt.

Table 18. Maturity structure of Jordan's external debt, 1989-1991

	1989	1990	1991[a/]
Total external debt (Billions of United States dollars)	8.50[b/]	8.60[b/]	8.90[b/]
of which:			
Long-term	6.12	6.18	6.20
% of total	72.0	71.9	69.7
Short-term	2.38	2.42	2.60
% of total	28.0	28.1	29.3

Source: OECD, Financing and External Debt of Developing Countries: 1990 Survey, 1991.

a/ ESCWA calculation based on various national and international sources.
b/ Contracted debt.

As concerns sources of Jordan's external debt, table 19 shows that around two thirds of the debt came from OECD countries and international financial markets, while between 11 per cent (1989) and 15 per cent (1991) came from multilateral institutions.

Table 19. Sources of Jordan's external debt, 1989-1991

	1989	1990	1991[a/]
Total external debt (Billions of United States dollars)	8.500[b]	8.600[b]	8.900[b]
of which:			
OECD and financial markets (Billions of United States dollars))	5.802	5.713	5.834
Percentage of total	8.3	66.4	5.6
Multilateral (Billions of United States dollars)	0.945	1.227	1.334
Percentage of total	11.1	14.3	15.0
Other debt (Billions of United States dollars)	1.753	1.660	1.732
Percentage of total	20.6	19.3	19.4

Source: OECD, Financing and External Debt of Developing Countries: 1990 Survey, 1991.

a/ ESCWA calculation based on various national and international sources.
b/ Contracted debt.

Identified Syrian external debt amounted to $16.25 billion at end-1991, up from $15.63 billion the year before (table 21). Most of this debt is barter debt to the former Eastern-bloc countries, amounting to around 72.3 per cent ($11.75 billion) of the total in 1991, and 74.5 per cent in the preceding two years. The chronic shortage of foreign exchange which the Syrian Arab Republic experienced during most of the 1980s gave the country no choice but to barter a significant part of its export for its external debt, notably to the former Eastern-bloc countries. The chronic shortage of foreign exchange and restrictive banking regulations on financial transactions have not helped improve the creditworthiness of the country. Indeed, identified commercial-bank borrowing in 1989 of the Syrian Arab Republic was a mere $34 million, out of a total of $2.123 billion debt to OECD countries and $14.712 billion total external debt.[13/] Furthermore, Syrian debt to OECD countries and financial markets therein averaged slightly over 15 per cent of total external debt between 1989 and 1991, with official development assistance (ODA) and bank letters of credit (LC) accounting for around 80 per cent of the debt, compared with less than 40 per cent during most of the 1980s. The rise in ODA and LC, which occurred mainly in 1990 and 1991, is seen as a result of the Syrian position taken during the Gulf crisis and the increase in available foreign exchange to the country associated with that crisis.

Table 21. Syrian Arab Republic: external debt, 1989-1991
(Millions of United States dollars)

	1989	1990[a/]	1991[a/]
Total external debt	14 712	15 630	16 253
Of which: OECD and financial markets	2 123	2 456	2 953
Multilateral	0 988	1 038	1 135
Of which: Concessional	0 235	270	314
Other debt	11 366	12 066	11 815
Of which: former Eastern Bloc countries	10 973	11 624	11 752
Memoranda			
Long-term debt	12 122	12 960	13 351
Short-term debt	2 590	2 664	2 902

Source: OECD, Financing and External Debt of Developing Countries: 1990 Survey, 1991.

a/ ESCWA calculation based on various international sources.

Most of the concessional debt of the Syrian Arab Republic originates from Arab multilateral institutions, notably the Arab Fund for Economic and Social Development and the Arab Monetary Fund. Of the estimated $1.135 billion multilateral debt in 1991, only $314 million (or 27.7 per cent) was concessional. With around $1,200 per capita debt, the Syrian Arab Republic is considered one of the most indebted countries in the world.

13/ OECD, Financing and External Debt of Developing Countries: 1990 Survey, (Paris, 1991).

The Jordanian banking system debt to BIS-reporting banks was around $2,413 million at end-1990, slightly below that of 1989, namely $2,423 million,12/ indicating that relations during the last two years between the Jordanian banking system and BIS-reporting banks have remained stable despite the fact that Jordan suspended interest payments on outstanding commercial loans and rolled over principal as it fell due. The Jordanian banks appear not to have experienced a major cut in their credit lines with BIS-reporting banks during the Gulf crisis.

D. Lebanon

Lebanon's external debt was around $1,157 million at the end of 1989, up by around 6 per cent ($65 million) from the preceding year (table 20). Over half of Lebanon's external debt is short-term, consisting of bank claims, including official bridging loans to the Government as well as non-bank deposits in banks. Official and officially-supported debt, originating mainly from OECD countries, has been on the decline during the last five years, dropping from $299 million in 1985 to $160 million in 1989.

E. Syrian Arab Republic

In 1991, the Syrian Arab Republic resumed talks with the IMF and the World Bank after an interruption of around five years. The renewed contacts with the IMF aimed at securing a token $100 million stand-by facility and thus strengthening confidence in the country's financial standing. Syrian relations with the World Bank have been strained due mainly to the inability of the Syrian Arab Republic to repay a $300 million debt owed to the Bank. The increased flow of financial assistance from ESCWA oil-exporting countries resulting from the Syrian position during the Gulf crisis, and the increase in Syrian oil revenues to approximately $5 billion in 1990 and 1991, improved the prospects for additional external aid and borrowing.

Table 20. Lebanon: external debt, 1985-1989
(Millions of United States dollars)

	1985	1986	1987	1988	1989
Total identified debt	992	940	1094	1092	1157
Long-term debt	528	498	553	499	517
Concessional	107	110	117	117	115
Non-concessional	421	379	436	382	402
Short-term debt	464	451	541	593	640
Service payments	248	117	117	142	148

Source: OECD, Financing and External Debt of Developing Countries: 1990 Survey, 1991.

12/ Bank for International Settlements, International Banking and Financial Market Developments (Basle, November 1991).

F. Republic of Yemen[14/]

Yemen's external debt is estimated to have been about $9.4 billion at the end of 1991, up from $8.5 billion in 1990 and $7.6 billion in 1989, with annual debt-service payments amounting to over one billion dollars. Table 22 shows that a significant part of Yemen's external debt is bilateral, with around 60 per cent owed to former Eastern-bloc countries. Multilateral concessional debt, which in 1989 amounted to around $956 million (12.4 per cent of total external debt), increased to $1,023 million in 1990 and to around $1,251 million in 1991. The Republic of Yemen has not been an important borrower in the international financial markets. Its debt in these markets was only $72 million in 1990 and rose slightly, to $81 million in 1991 as a result of arrears of around $12 million.

Most of Yemen's external debt has been long term, thus reducing the pressure on the country's cash flow. Yemen's long-term external debt amounted to around 87.3 per cent of the country's total external debt in 1989, decreasing to around 84.9 per cent in 1990, but then increasing to slightly less than 88 per cent in 1991.

Table 22. Yemen: external debt, 1989-1991
(Millions of United States dollars)

	1989	1990[a/]	1991[a/]
Total external debt	7 679	8 524	9 468
Of which: OECD and financial markets	1 148	1 427	1 721
Financial markets and ODA	85	72	81
Multilateral	1 029	1 259	1 303
Of which: Concessional	956	1 023	1 251
Other debt	5 502	5 838	6 444
Of which: Former Eastern-bloc countries	4 600	5 120	5 623
Memoranda			
Long-term debt	6 700	7 240	8 320
Short-term debt	979	1 284	1 148

Source: OECD, Financing and External Debt of Developing Countries: 1990 Survey, 1991.

a/ ESCWA calculation based on various international sources.

14/ The external debt is the combined debt of former Yemen and Democratic Yemen.

IV. INFLATION

Inflationary pressures increased in the non-GCC countries, mainly owing to the negative effects of the Gulf crisis and/or to marked depreciation in the value of national currencies (table 23). Though no official indicators of changes in prices are available, there are strong indications that Iraq suffered from hyper-inflation in 1990 and 1991. Lebanon's estimated inflation rate of 50 per cent in 1991 seems to have already been exceeded in the first quarter of 1992. In recent years, prices have risen by around 20 per cent in Egypt. The reduction in government subsidies and the introduction of a 10 per cent sales tax contributed to this phenomenon in 1991. In the case of Yemen, it is believed that the inflation rate was in the vicinity of 40 per cent in 1991. In contrast, the rate of inflation appears to have slowed down considerably in 1991 in both Jordan and the Syrian Arab Republic. The consumer price index increased by only 8.2 per cent in Jordan in 1991, compared to 25.7 per cent in 1989 and 16.2 per cent in 1990, and by 6.9 per cent in the Syrian Arab Republic, compared to 11.4 per cent and 19.4 in the preceding two years.

Inflationary pressures in the GCC countries have remained fairly modest (at 3 per cent or lower) in recent years, reflecting in part highly subsidized basic goods and services as well as stable and strong currencies.

Table 23. Annual rates of inflation (consumer prices) in the ESCWA countries, 1986-1991
(Percentage)

	1986	1987	1988	1989	1990	1991
GCC countries						
Bahrain	-2.3	-1.7	-0.3	1.5	0.9	0.9 (11 months)
Kuwait	1.0	0.7	1.5	3.3	...	...
Saudi Arabia	-3.2	-1.5	0.9	1.0	2.2	4.8
Qatar	1.6	3.6	4.6	3.3	3.0	3.8
Other ESCWA countries						
Egypt	23.9	19.7	17.7	21.3	16.8	19.9
Jordan	-0.1	-0.2	6.6	25.7	16.2	8.2
Syrian Arab Republic	36.1	59.5	34.6	11.4	19.4	6.9 (11 months)

Source: International Monetary Fund, International Financial Statistics (various issues).

V. FINANCIAL AID

ESCWA GCC countries,[15/] especially Saudi Arabia and Kuwait, were major donors of financial aid to developing countries during the last two decades. The estimations are that net disbursements of GCC countries to developing countries have made up around 20 per cent of total financial aid received by these countries from all sources. Apart from 1990 and 1991 where considerations related to the Gulf crisis were the main determinant of financial aid disbursements, the level of such aid, mostly concessional, has normally been determined by the level of oil revenues. Indeed, table 24 shows that aid disbursement was highest in 1975 and 1980 — both years preceded by exceptionally high oil prices and revenues.

Except for the last few years, the proportion of GNP disbursed by the ESCWA GCC countries exceeded by far the 0.7 per cent target set out in the International Development Strategy. In particular, Saudi Arabia has consistently exceeded that target and Kuwait until only recently.

Financial aid from the region has been mostly bilateral, ranging between 84 per cent in 1988 and 98 per cent in 1990 of total aid disbursed (table 25). Moreover, the bulk of this aid (over 80 per cent) has been in form of Government-to-Government transactions, with development-finance institutions playing a lesser role.

Multilateral financial aid, mostly of a non-concessional nature, has been carried out mainly through regional development-finance institutions, such as the Arab Fund for Economic and Social Development, the Islamic Development Bank and the Arab Monetary Fund.

The geographic distribution of financial aid of ESCWA GCC countries reflects a clear preference in favour of Arab countries, including those in the ESCWA region. Table 26 shows that between 1986 and 1990 around 50 per cent of bilateral concessional aid given by Saudi Arabia, Kuwait, the United Arab Emirates and Qatar went to other Arab countries, with about 29 per cent going to ESCWA countries, particularly Jordan and the Syrian Arab Republic. It is worth pointing out, however, that aid given to Jordan and Yemen declined sharply in 1988 and 1989 but then recovered in 1990, with large disbursements prior to the eruption of the Gulf crisis. The large receipts by the Syrian Arab Republic were followed by net outflows in 1988 and 1990. But most striking has been the massive aid to Egypt in 1990 following a long period of negligible amounts.

It is estimated that between 1970 and 1989, cumulative bilateral aid of ESCWA GCC countries to other ESCWA countries amounted to around $40 billion, or more than 5 per cent of the latters' cumulative GNP, and over 45 per cent of their total investments.

15/ The four GCC countries involved in aid giving are Saudi Arabia, Kuwait, the United Arab Emirates and Qatar.

Table 24. Concessional aid (net disbursements) of ESCWA GCC countries; 1970, 1975, 1980, 1985-1990
(Millions of United States dollars)

	1970		1975		1980		1985		1986		1987		1988		1989		1990	
	$ mn	% of GNP	$ mn	% of GNP	$ mn	% of GNP	$ mn	% of GNP	$ mn	% of GNP	$ mn	% of GNP	$ mn	% of GNP	$ mn	% of GNP	$ mn	% of GNP
Kuwait	148	6.19	910	6.19	1140	3.52	771	3.21	715	2.89	316	1.20	108	0.40	169	0.54	1666	-
Qatar	-	-	307	14.17	277	4.16	8	0.51	18	0.47	0	0.00	4	0.08	-2	-0.03	1	0.00
Saudi Arabia	172	5.57	2699	7.60	5682	7.87	2630	2.98	3517	4.67	2888	3.88	2048	2.64	1171	1.49	3692	3.89
United Arab Emirates	0	-	929	10.38	1118	4.06	122	0.45	87	0.40	15	0.06	-17	-0.07	2	0.01	888	2.63
Average		5.88a/		9.60		4.90		1.80		2.11		1.29		0.76		0.50		2.17b/
Total	320	2.87	4845	9.77	8217	4.15	3531	1.70	4337	2.11	3219	1.29	2143	0.76	1430	0.50	6247	-

Source: OECD, Coopération pour le développement, 1991.

a/ For two countries only.
b/ For three countries only.

Table 25. Bilateral and multilateral concessional aid of ESCWA GCC countries, 1988-1990
(Millions of United States dollars)

	Commitments						Net disbursements					
	Bilateral			Multilateral			Bilateral			Multilateral		
	1988	1989	1990	1988	1989	1990	1988	1989	1990	1988	1989	1990
Kuwait	343.5	507.1	2 223.2	32.8	14.7	18.6	60.8	147.7	1 658.0	46.9	21.6	7.7
Qatar	-	-	-	7.3	-	0.1	-4.3	-3.0	-	8.2	0.6	0.5
Saudi Arabia	1 900.4	1 240.6	4 532.7	153.8	150.7	45.5	1 767.8	1 109.6	3 557.7	280.2	61.1	134.3
United Arab Emirates	9.8	159.9	1 144.6	8.3	0.3	0.3	-27.3	0.3	884.8	10.2	1.2	2.9
Total	2 253.7	1 907.6	7 900.5	202.2	165.7	64.5	1 797.0	1 254.6	6 100.5	346.5	84.5	145.4
Bilateral aid/total(%)							83.9	87.7	97.7			

Source: OECD, Coopération pour le développement, 1991.

Table 26. Geographic distribution of bilateral concessional aid of ESCWA GCC countries to developing countries and other ESCWA countries, 1986-1990

(Millions of United States dollars)

	1986	1987	1988	1989	1990
Developing countries	3 652.0	2 860.0	1 797.6	1 254.6	6 100.5
of which:					
Arab countries	1 770.5a/	1 619.8a/	510.1a/	338.6a/	5 285.2a/
ESCWA countries	1 119.9	1 020.4	253.7	72.3	3 596.2
Egypt	45.0	60.3	-15.2	-11.5	2 450.0
Jordan	430.0	375.5	280.0	125.0	430.6
Lebanon	2.5	18.0	11.2	3.7	35.3
Syrian Arab Republic	540.2	421.3	-45.6	-70.3	550.3
Yemen	102.2	145.3	23.3	25.4	130.0
Share of Arab countries (percentage)	48.5	56.6	28.4	27.0	86.6
Share of ESCWA Arab countries (percentage)	30.7	35.7	14.1	5.8	58.9

Source: ESCWA calculation based on OECD, *Coopération pour le développement*, 1991.

a/ Including Arab countries, unspecified.

While financial aid has been crucial to the economic development of ESCWA recipient countries, it may have encouraged excessive consumption and imports, increased the vulnerability of their economies to external influences and shocks, and created a frame of mind of dependency. Furthermore, the Gulf crisis is expected to have a major impact on the financial aid of ESCWA GCC countries in the coming few years, in terms of volume as well as direction.

The Gulf Cooperation Council countries recently approved plans for a $10 billion development fund to channel aid to other Arab countries. Saudi Arabia and Kuwait each pledged $2.5 billion and the United Arab Emirates another $1.5 billion. The aid to be given will be based on progress made in economic liberalization and implementation of sound economic policies, and is to be channelled mostly to the private sector. The new fund intends to cooperate with the World Bank as concerns project appraisal and finance, and with the IMF as concerns economic reform programmes in recipient countries. The fund will be operating alongside a number of regional/national development-finance institutions which have been in existence for some time and whose contribution to development in the region has remained below expectations. Moreover, to be effective, the new fund should rely on economic criteria in giving aid and should cover those countries in real need -- a task rendered extremely difficult by the state of inter-Arab relations that emerged in the wake of the Gulf crisis.

VI. BANKING

The years 1990 and 1991 witnessed a dramatic transformation of banks in the ESCWA region. The Gulf crisis (for the time being) has reduced the prospects for these banks to play a significant role in international financial markets, especially in post-1992 Europe. The scandal of the Bank of Credit and Commerce International (BCCI) has further worsened the credibility of banks in the region. The Gulf crisis and the BCCI scandal have led many international banks and financial institutions to cut down or eliminate the credit lines of many ESCWA banks and to refrain from doing business with them. Apart from a very small number of big and well-established ESCWA banks, such as the Arab Bank (Jordan) and the Arab Banking Corporation (Bahrain), most banks in the region, which prior to the Gulf crisis were involved in some lines of international banking business, have retreated to their domestic base, with their international banking activities confined mostly to correspondent banking and the issuance of letters of credit.

Actually, recent events have merely exposed a fundamental weakness in the international involvement of ESCWA banks and accelerated underlying trends. The Gulf crisis showed that banks which do not have a solid domestic (customer) base cannot establish themselves internationally, except as offshore banks, such as the Arab Banking Corporation. Furthermore, the Gulf crisis has showed that limiting international banking to one line of business, as is the case with most banks in the region, whose main international involvement has been either trade finance or participation in syndicated lending, makes banks vulnerable to events beyond their control.

Table 27 shows that a significant number of ESCWA banks, especially Saudi Banks, enjoy a healthy equity, i.e., capital/assets ratio, although for most of these banks the high ratio is due to a drop in interbank liabilities rather than to an increase in their equity. However, with the business of most of these banks being domestic, and their assets overwhelmingly denominated in the currencies of the home country, the equity/assets ratio is not relevant to the Basle Standard of a capital adequacy ratio of at least 8 per cent. Furthermore, both the high equity/asset ratio and the good performance -- vis-a-vis profit on capital -- indicated in table 28 cannot detract from the major drawback facing most ESCWA banks, namely the increasing irrelevance of their operations to international financial and banking activity, especially since they lack experience in international banking and finance, and the size of their assets as well as capital is lower than the generally accepted standards for a significant involvement in international banking and financial markets.

Following is a brief review of recent developments in selected ESCWA banking markets.

A. Saudi Arabia

Saudi banks are considered healthy in terms of liquidity and foreign assets and can afford large amounts of lending to the Saudi Government as well as to public or mixed companies. The strong rise in demand for loans over the last two years has been met adequately by Saudi banks, although terms of

lending to both the government and private sector have been less favourable than to those in international financial markets. The latest figures on Saudi commercial banks indicate that their foreign assets were around $29 billion at mid-1990, representing around 46 per cent of total assets, whereas claims on the domestic private sector were only $18 billion, compared with total deposits of this sector of around $28 billion with these banks. Actually, deposits of the Saudi private sector with Saudi commercial banks have almost always exceeded the claims of these banks on this sector.

The attempts of the Saudi Arabian Monetary Agency (SAMA) to tap the domestic market so as to absorb excess liquidity of the banks through the issuance of development bonds have not been very successful, resulting in SAMA's obliging State-owned institutions to buy most of the bonds on offer. Another attempt of SAMA to control the liquidity of the commercial banks was the increase in April 1991 of the yield on its Banker's Security Deposit Account (BSDA) to a level of return equal to that of local interbank funds.

In late 1991, SAMA discontinued the BSDA and replaced it with treasury bills, which are issued weekly, to finance the country's budget deficit. In contrast to the BSDA, which was non-negotiable and therefore unpopular with the Saudi banking community, the treasury bills are negotiable and can be sold in the market. A yield on the bills is set, and a purchase and repurchase facility serves as a floor and ceiling for return on overnight money in the Saudi interbank market.

The increased borrowing by the Saudi Government and companies wholly or partly owned by the Government from Saudi banks is expected to lead these banks to restructure their assets portfolios. To meet the increased domestic demand for loans, Saudi banks are expected to draw on their foreign assets. On the one hand, this would increase the bank loan/bank assets ratio and thus give the maturity profile of the bank balance sheets a rather long-term nature, as foreign assets would be channelled from foreign bank deposits into domestic medium- and long-term assets. On the other hand, the increased domestic demand for loans would compromise the profitability of Saudi banks, especially since loans to public-sector companies are made with margins below commercial rates.

During the Gulf crisis, private deposit withdrawals from Saudi banks are estimated to have been around 10 per cent of total banking system deposits, but only slightly over 4 per cent of total liabilities. With the war looming, Saudi banks prepared for further withdrawals by boosting riyal liquidity and keeping ready large amounts of foreign currency and traveller's checks. They also restructured their balance sheets by increasing the level of disposable assets. Assistance in this regard has been given by SAMA, by initiating a dollar-swapping facility that allows Saudi banks to make weekly riyal exchanges of up to $10 million and raising its repurchase facility to cover up to half of the Government's development bonds held by the banks.

B. Bahrain

Bahrain's offshore banking activity was severely hit by the Gulf crisis. Total assets of offshore banking units (OBUs) at end-1990 were $59.9 billion, down by around 17.5 per cent from their level in 1989 of $72.6 billion, and

the lowest since 1986. However, with around 70 per cent of total assets of Bahrain's OBUs accounted for by a small number of banks, changes in these banks' assets affect the aggregate picture of the market size of Bahrain's offshore banking. Therefore, the absolute volume of OBUs' total assets does not accurately reflect the state of OBUs' affairs. Nevertheless, the vulnerability of Bahraini offshore banking to regional crises emanates from the fact that the funding sources of the OBUs are mostly short term and can be withdrawn on short notice. At end-1990, OBUs' liabilities with maturities of up to one month are estimated to have been about 54 per cent of total liabilities, and those with maturities of one month to six months about 32 percent. Moreover, in 1990, interbank assets as well as liabilities of Bahrain's OBUs were lower than in many of the preceding years, as shown below.

(Billions of dollars)	1986	1987	1988	1989	1990
Total assets/total liabilities	55.7	63.5	68.1	72.6	59.9
Interbank assets	39.1	46.8	52.2	56.6	47.2
Interbank liabilities	37.6	42.8	43.0	44.7	37.7

C. United Arab Emirates

In May 1991, the federal cabinet took a decision aimed at establishing an offshore banking centre in the Emirates. The decision is seen as an opportunity for the Central Bank of the United Arab Emirates to clarify and strengthen its role and power. The stepping in of the Central Bank in recent years to support troubled banks has not changed the fact that the Central Bank is still not the lender of last resort. With an offshore banking centre highly dependent on the provision of interbank funds from the outside, and considering that funds would not be forthcoming if international banks (i.e., offshore banks) doubt whether the Central Bank would support the institutions under its control, the decision to establish an offshore banking centre in the Emirates is seen as a means of making the Central Bank the lender of last resort. However, as a federal institution, the Central Bank faces other problems associated with its supervision of the country's banks in the individual Emirates. Recent developments in the banking system indicate that the interests of the system as a whole do not always coincide with those of the individual Emirates, especially when such interests demand that a troubled bank in one Emirate has to declare provisions for non-performing loans and raise its capital base, and yet does not comply. Another problem facing the Central Bank is seen in its underfunding, which has forced it on many occasions to rely on direct financial assistance from the individual Emirates.

Despite these problems, the Central Bank of the United Arab Emirates has been able to support the banks affected by withdrawal of deposits in the wake of the Gulf crisis. It is estimated that during the first five months of the crisis around 20 per cent of total deposits were transferred abroad: also, private-sector deposits dropped by around 15 per cent. However, the fall in private deposits has been partially offset by increased government deposit through the Central Bank. Furthermore, the Central Bank has supported troubled banks by allowing them to draw on their local currency reserves and borrow against certificates of deposit placed with it. The Central Bank also liberalized the use of swap facilities and gave the banks a weekly allocation of around 1.8 billion United Arab Emirates dirhams in bank notes.

D. Egypt

In order to pave the way for the May 1991 agreement with the IMF, a prerequisite for a rescheduling of debt obligations and the approval of an IMF stand-by loan facility, the Egyptian Government announced in early 1991 plans to liberalize the country's financial markets. As of February 1991, Egyptian banks and other financial institutions were authorized to deal freely in foreign exchange without requesting clients to explain the reason for the transaction or the source of the funds. Egyptians could also transfer foreign exchange from abroad and from the country with complete confidentiality.

Despite the large number of banks operating in Egypt, over four fifths of the banking system's total assets are in the hands of the four public-sector banks. The Egyptian banking system is relatively diversified, including commercial, investment and foreign joint-venture banks as well as representative offices of foreign banks. Since these institutions operate under different regulations, the implementation of monetary policy is rendered especially difficult.

During the last few years, the banking sector has gone through a difficult phase of business. A slump in trade and project finance, a decrease in workers' remittances transferred through the banking system and an accumulation of doubtful loans, estimated at over 40 per cent of the total loan portfolio, to the private sector have combined to cut into bank earnings. Also, foreign-currency branches of international banks which prior to the agreement between Egypt and the IMF were not authorized to trade in local currency were burdened by the large volume of non-performing loans to the private sector. Many of these branches were set up in the 1970s and early 1980s when high oil prices meant no shortage in foreign currency in Egypt and banks financed borrowers with foreign-currency loans. But the slide in oil prices and the depreciation of the Egyptian pound, especially in the second half of the 1980s, left many private-sector companies unable to repay their foreign debt, estimated at around $3 billion. In February 1988, the Government announced that 10 per cent of the foreign exchange coming into the commercial bank pool each month could be directed towards paying private-sector debt incurred after the currency reforms of May 1987 (but not those incurred earlier). Official authorization for private debt came in slowly, however, and the funds that dribbled through were hardly sufficient to cover even current payments. As a result, Egypt creditworthiness continued to suffer.

The reforms of May 1987 have rather benefited the country-wide branched public-sector banks in attracting most of the foreign exchange that came in. Also public-sector companies (with their close links to public-sector banks) have been favoured over private-sector companies, as reflected in a fourfold increase of letters of credit issued to public-sector companies since the start of these reforms.

In compliance with the IMF agreement to reform the banking system, Egypt issued in the second half of 1991 a new banking law which gives the Central Bank of Egypt extensive new powers to regulate and control the banking system. The law aims at bringing the banking system into line with international banking standards, especially as concerns capital adequacy and

liquidity ratios. Equipped with new powers, the Central Bank can order any bank to raise its capital to adjust to Bank of International Settlements (BIS) requirements. In case of non-compliance, the Central Bank can liquidate the bank or order it to merge with another bank. However, the law implies that no bank will be allowed to fail. The law states that no bank can lend more than 25 per cent of its capital to one customer. Furthermore, the law sets forth the minimum of authorized (LE 100 million = $33 million) and paid-up (LE 50 million = $16.5 million) capital for local banks and for foreign banks ($10 million). The law gives foreign banks a five-year grace period to conform with the regulation. The Central Bank is also given the right to intervene in the appointment of the senior management and directors of banks. A landmark in the history of the banking system of Egypt is the permission the law gives to foreign banks to open representative offices in Egypt for the purpose of collecting information. However, the banking law does not address the problems facing the four State-owned banks, particularly their under-capitalization. This used to be excused owing to the large portion of their lending portfolios to public-sector companies, thus rendering this lending a sovereign risk that does not affect their capital base or make it necessary for them to raise that base or make any loan provisions. The IMF agreement does not accept this case, for two reasons: First, most public-sector borrowers are considered insolvent, i.e., unable to repay their debt to banks, thus affecting the quality of banks' assets. Second, adjustment to BIS capital adequacy ratios does not recognize subjective evaluation of assets' quality. The additional powers the new banking law gives to the Central Bank are expected to strengthen and activate the banking system.

Table 27. The largest 40 ESCWA banks, ranked by size of capital, assets and capital/assets ratio, 1990

Rank		Capital		Assets			Capital/assets ratio			
		(Millions of dollars)	Percentage change from year before	(Millions of dollars	Rank	Percentage change from year before	Latest	Prev.	Rank Latest	Rank Prev.
1.	Rafidain Bank Iraq (31/12/90)	3,324	10.7	50,694	1	8.0	6.56	6.41	31	28
2.	Arab Banking Corporation Bahrain (31/12/90)	1,386	20.5	20,549	4	-5.4	6.74	5.29	30	33
3.	Riyadh Bank Saudi Arabia (31/12/90)	1,156	-5.4	12,198	7	2.1	9.48	10.23	19	18
4.	National Bank of Dubai United Arab Emirates (31/12/90)	939	3.6	6,577	13	4.6	14.28	14.41	11	9
5.	National Bank of Kuwait Kuwait (31/12/89)	935	6.6	13,247	5	11.3	7.06	7.36	28	23
6.	Arab Bank Jordan (31/12/90)	903	14.0	13,132	6	1.2	6.88	6.10	29	31
7.	National Commercial Bank Saudi Arabia(31/12/89)	854	0.0	23,132	3	9.5	3.69	4.04	38	35
8.	Al-Rajhi Banking and Investment Corp. Saudi Arabia (31/12/90)	812	44.6	4,943	17	10.4	16.43	12.55	7	11
9.	Gulf Investment Corp. Kuwait (31/12/90)	744	0.3	1,412	32	-27.1	52.69	38.29	4	4
10.	Gulf Bank Kuwait (31/12/89)	692	2.5	6,647	11	2.3	10.41	10.38	17	16
11.	Al Rasheed Bank Iraq (31/12/90)	615	34.0	27,412	2	9.7	2.24	1.84	39	38
12.	Saudi American Bank Saudi Arabia (31/12/90)	578	12.3	7,958	9	12.5	7.26	7.27	26	24
13.	Burgan Bank Kuwait (31/12/89)	565	-1.1	4,780	18	6.7	11.82	12.75	14	10
14.	Apicorp-Arab Petroleum Investment Corp. Saudi Arabia (31/12/90)	545	-10.3	928	35	-1.8	58.73	64.23	3	2

Table 27. (continued)

Rank		Capital (Millions of dollars)	Capital Percentage change from year before	Assets (Millions of dollars	Assets Rank	Assets Percentage change from year before	Capital/assets ratio Latest	Capital/assets ratio Prev.	Rank Latest	Rank Prev.
14.	Commercial Bank of Kuwait Kuwait (31/12/89)	545	1.9	6,935	10	13.4	7.85	8.73	23	20
16.	Arab National Bank Saudi Arabia (31/12/90)	537	8.4	3,841	21	-8.3	13.98	11.83	12	13
17.	Al-Ahli Bank of Kuwait Kuwait (31/12/89)	493	2.1	6,144	15	2.3	8.03	8.04	22	22
18.	National Bank of Abu Dhabi United Arab Emirates (31/12/90)	479	1.0	6,415	14	12.3	7.47	8.31	25	21
19.	Bank of Kuwait & the Middle East Kuwait (31/12/90)	452	3.9	3,846	20	5.6	11.75	11.95	15	12
20.	Gulf International Bank Bahrain (31/12/90)	420	6.9	6,539	12	-33.4	6.37	3.97	32	37
21.	Abu Dhabi Commercial Bank United Arab Emirates (31/12/90)	403	5.5	2,570	26	-2.8	15.67	14.43	9	8
22.	Qatar National Bank Qatar (31/12/90)	393	12.7	3,257	23	6.9	12.07	11.45	13	15
23.	Al-Bank Al-Saudi Al-Fransi Saudi Arabia(31/12/90)	306	4.2	5,017	16	4.4	6.11	6.11	33	30
24.	Investcorp Bahrain(31/12/90)	243	24.7	944	34	16.0	25.77	23.96	6	6
25.	Bank of Oman U.A.E. (31/12/90)	230	7.2	2,835	25	-10.9	8.11	6.74	21	25
26.	Saudi-British Bank Saudi Arabia(31/12/90)	224	17.2	3,681	22	14.5	6.09	5.95	34	32
27.	Emirates Bank International United Arab Emirates (31/12/90)	203	15.0	2,071	28	16.8	9.82	9.97	18	19
28.	Al-Bank Al-Saudi Al-Holandi Saudi Arabia(31/12/90)	199	11.7	2,543	27	-6.9	7.82	6.52	24	26

Table 27. (continued)

Rank		Capital		Assets			Capital/assets ratio			
		(Millions of dollars)	Percentage change from year before	(Millions of dollars)	Rank	Percentage change from year before	Latest	Prev.	Rank Latest	Rank Prev.
29.	Bahrain International Bank Bahrain (31/12/90)	192	-8.2	271	38	-36.4	71.05	49.18	2	3
30.	National Bank of Bahrain Bahrain (31/12/90)	189	4.4	1,612	31	-8.3	11.72	10.29	16	17
31.	United Gulf Bank Bahrain (31/12/90)	175	-17.5	207	40	-10.1	84.44	91.98	1	1
31.	Kuwait Finance House Kuwait (31/12/90)	175	8.5	3,877	19	-3.5	4.51	4.01	37	36
33.	National Bank of Egypt Egypt (31/12/90)	174	88.0	8,564	8	26.7	2.03	1.37	40	39
34.	Saudi-Cairo Bank Saudi Arabia(31/12/90)	139	n.a.	3,051	24	13.0	4.54	5.13	36	34
35.	United Saudi Commercial Bank Saudi Arabia(31/12/90)	119	39.1	1,638	30	21.0	7.25	6.31	27	29
36.	Faisal Islamic Bank of Egypt Egypt(31/12/90)	109	0.8	1,831	29	9.6	5.96	6.45	35	27
36.	Commercial International Bank Egypt(31/12/90)	109	18.6	1,152	33	44.7	9.47	11.49	20	14
38.	Bahrain Arab International Bank Bahrain(31/12/90)	100	n.a.	684	36	n.a.	14.65	n.a.	10	40
38.	Bahrain Middle East Bank Bahrain(31/12/90)	100	-30.6	612	37	-4.7	16.34	22.43	8	7
40.	Trans-Arabian Investment Bank Bahrain(31/12/90)	92	1.0	244	39	-12.5	37.79	32.73	5	5

Source: The Banker, November 1991.

Note: Prev. = Previous.
n.a. = Not available.

Table 28. <u>The top 40 ESCWA banks, ranked by profit and performance, 1990</u>

	Pre-tax profits		Real growth in profits				Profits on capital				Return on assets	
	Millions of dollars	% change from year before	% Latest	% Prev.	Rank Latest	Rank Prev.	% Latest	% Prev.	Rank Latest	Rank Prev.	Percentage	Rank
1. Rafidain Bank Iraq (31/12/90)	1,164	-25.5	n.a/	n.a.	35	33	36.8	55.7	6	3	2.30	5
2. Arab Banking Corporation Bahrain (31/12/90)	-47	-234.3	-224.7	-76.5	31	31	-3.7	3.1	33	33	-0.23	33
3. Riyadh Bank Saudi Arabia (31/12/90)	82	9.1	9.2	-3.5	12	27	6.9	6.3	21	25	0.67	23
4. National Bank of Dubai United Arab Emirates (31/12/90)	128	7.1	-0.8	4.3	21	23	13.8	13.5	15	14	1.94	11
5. National Bank of Kuwait Kuwait (31/12/89)	120	12.9	9.3	10.7	11	19	13.2	12.6	17	17	0.90	17
6. Arab Bank Jordan (31/12/90)	155	6.2	0.7	42.2	20	7	18.3	18.8	12	10	1.18	16
7. National Commercial Bank Saudi Arabia(31/12/89)	0	0.0	-1.1	n.a.	22	33	0.0	0.0	31	36	0.00	31
8. Al-Rajhi Banking and Investment Corp. Saudi Arabia (31/12/90)	290	5.7	5.8	72.8	15	4	42.3	61.7	3	2	5.87	2
9. Gulf Investment Corp. Kuwait (31/12/90)	2	-96.7	-96.9	37.1	27	10	0.2	7.5	30	22	0.13	30
10. Gulf Bank Kuwait (31/12/89)	29	11.7	8.1	7.5	13	21	4.3	4.0	26	29	0.44	26
11. Al Rasheed Bank Iraq (31/12/90)	624	15.7	n.a.	n.a.	35	33	116.1	n.a.	1	39	2.28	7
12. Saudi American Bank Saudi Arabia (31/12/90)	140	24.5	24.5	77.3	5	3	25.7	23.7	9	8	1.76	12
13. Burgan Bank Kuwait (31/12/89)	22	1.7	-3.0	2.2	24	26	3.9	3.7	27	31	0.46	25
14. Apicorp-Arab Petroleum Investment Corp. Saudi Arabia (31/12/90)	-63	-359.7	-346.4	40.9	32	9	-10.9	4.0	36	29	-6.76	38

Table 28. (continued)

	Pre-tax profits		Real growth in profits				Profits on capital				Return on assets	
	Millions of dollars	% change from year before	% Latest	% Prev.	Rank Latest	Rank Prev.	% Latest	% Prev.	Rank Latest	Rank Prev.	Percentage	Rank
15. Commercial Bank of Kuwait Kuwait (31/12/89)	19	5.0	1.7	10.9	18	18	3.5	3.4	28	32	0.27	28
16. Arab National Bank Saudi Arabia (31/12/90)	88	2.5	2.6	22.5	17	11	17.1	18.6	13	11	2.30	5
17. Al-Ahli Bank of Kuwait Kuwait (31/12/89)	15	4.9	1.4	-17.0	19	29	3.2	3.1	29	33	0.25	29
18. National Bank of Abu Dhabi United Arab Emirates (31/12/90)	28	10.3	-16.9	48.1	21	6	5.8	6.5	23	24	0.43	27
19. Bank of Kuwait & the Middle East Kuwait (31/12/90)	27	33.3	29.1	n.a.	3	33	6.2	4.8	22	28	0.17	20
20. Gulf International Bank Bahrain (31/12/90)	-692	n.a.	n.a.	-957.6	35	32	-170.4	-75.5	39	38	-10.50	39
21. Abu Dhabi Commercial Bank United Arab Emirates (31/12/90)	21	-24.6	-30.1	41.9	28	8	5.4	7.6	24	21	0.82	19
22. Qatar National Bank Qatar (31/12/90)	60	5.1	n.a.	n.a.	35	37	-4.5	-10.4	35	37	-0.29	34
23. Al-Bank Al-Saudi Al-Fransi Saudi Arabia(31/12/90)	35	26.2	26.3	19.0	4	14	11.6	6.9	19	19	0.69	21
24. Investcorp Bahrain(31/12/90)	66	28.1	21.5	7.0	6	22	30.3	29.2	8	7	7.02	1
25. Bank of Oman United Arab Emirates (31/12/90)	37	5.1	-2.7	20.0	23	13	16.8	17.1	14	13	1.32	15
26. Saudi-British Bank Saudi Arabia(31/12/90)	51	56.1	56.2	n.a.	1	33	24.7	18.1	10	12	1.39	14
27. Emirates Bank International United Arab Emirates (31/12/90)	43	24.5	15.3	70.3	8	5	22.8	21.2	11	9	2.09	8
28. Al-Bank Al-Saudi Al-Holandi Saudi Arabia(31/12/90)	22	4.3	4.3	407.9	16	2	11.8	12.7	18	15	0.87	18

Table 28. (continued)

	Pre-tax profits		Real growth in profits				Profits on capital				Return on assets	
	Millions of dollars	% change from year before	% Latest	% Prev.	Rank Latest	Rank Prev.	% Latest	% Prev.	Rank Latest	Rank Prev.	Percentage	Rank
29. Bahrain International Bank Bahrain (31/12/90)	-8	-153.5	-150.7	-2.6	30	27	-4.1	7.4	34	23	-3.05	35
30. National Bank of Bahrain Bahrain (31/12/90)	24	11.5	10.5	16.8	10	45	12.9	12.0	17	18	1.49	13
31. United Gulf Bank Bahrain (31/12/90)	-35	-426.4	-409.7	n.a.	34	33	-17.9	5.5	37	27	-16.68	40
32. Kuwait Finance House Kuwait (31/12/90)	114	10.2	6.6	21.4	14	12	68.0	67.2	2	1	2.94	4
33. National Bank of Egypt Egypt (31/12/90)	51	36.3	12.0	-24.9	9	30	38.6	41.7	4	4	0.60	24
34. Saudi-Cairo Bank Saudi Arabia(31/12/90)	0	n.a.	n.a.	n.a	35	33	0.0	-7.7	31	35	0.00	31
35. United Saudi Commercial Bank Saudi Arabia(31/12/90)	33	31.4	31.4	355.4	2	1	32.8	35.0	7	5	2.04	9
36. Faisal Islamic Bank of Egypt Egypt(31/12/90)	13	-8.7	-13.0	8.1	26	20	11.6	12.7	19	15	0.69	21
37. Commercial International Bank Egypt(31/12/90)	38	35.4	15.9	13.8	7	17	37.7	32.8	5	6	3.27	3
38. Bahrain Arab International Bank Bahrain(31/12/90)	-24	n.a.	n.a.	n.a.	35	33	n.a.	n.a.	40	40	-3.54	36
39. Bahrain Middle East Bank Bahrain(31/12/90)	-38	-404.9	-393.3	2.9	33	24	-30.8	8.6	38	20	-6.15	37
40. Trans-Arabian Investment Bank Bahrain(31/12/90)	5	-5.8	-10.7	14.8	25	16	5.4	5.9	24	26	2.03	10

Source: The Banker, November 1991.

Note: Prev. = Previous.
n.a. = Not available.

VII. SUMMARY AND CONCLUSIONS

During the last few years, ESCWA GCC countries have not only suffered from the adverse consequences of lower levels of oil revenues (their main national income source) but also from the impact of the Gulf crisis. The fluctuations in oil prices have forced a number of them to delay the publication of government budgets and to reassess fiscal and development programmes, with a shift towards budgetary restraints. The Gulf crisis has brought about significant increases in government expenditures for defence and security. Although oil prices and thus oil revenues rose during the first three months of the crisis, a number of GCC countries had to resort to their general reserve funds as well as foreign borrowing to finance rising budget deficits. The common feature characterizing fiscal policy in GCC countries remained budgetary constraints. Considering that government expenditures are the main determinant of economic and financial activities in these countries, the adverse impact of such constraints on these activities is expected to be felt in the next few years. However, in order to reduce the impact, a number of GCC countries have made significant efforts aiming at increasing the involvement of the private sector in economic activities.

Both the Gulf crisis and fiscal constraints in the GCC countries have served to highlight the strong dependence of other ESCWA countries and the susceptibility of their economies to conditions in the GCC countries. Indeed, during the last two years, a number of countries in this group, particularly Jordan and the Republic of Yemen, have suffered not only from heavy financial burdens caused by hundreds of thousands of returnees from the GCC countries, but also from having to cope with the consequences of suspension of aid and sharply reduced workers' remittances and trade flows.

The financial difficulties of non-GCC countries resulting from these developments necessitated urgent and immediate adjustment policies, and accordingly the countries undertook a major reassessment of their fiscal policies, with a significant shift towards restraining the increase in budgetary expenditures. The restraint has been mostly in development expenditures, while current expenditures, consisting mainly of defence, salaries, public services and subsidies, proved to be difficult to curtail. Nevertheless, some ESCWA countries, such as Egypt and Jordan, have been able to make reductions in subsidies, in accordance with their agreements with the IMF.

The GCC countries have disbursed significant financial assistance to other ESCWA countries during the last two years, with Egypt and the Syrian Arab Republic being the main beneficiaries. However, the assistance received by both countries was related to the stand they adopted during the Gulf crisis. Consequently, this assistance may not provide long-term relief from their debt repayments obligations, regardless of write-offs and forgiveness of both countries' external debt by their creditors. There is also the question of the ability of the GCC donors to maintain their aid disbursement levels, given the financial constraints they are facing.

Indebted ESCWA countries have made significant efforts during the recent past to increase their foreign-currency earnings and improve their

debt-service ratios. For these countries as a whole, debt-service obligations have been growing at a faster rate than the export of goods and services. However, many of these countries are making serious efforts to contain their budget deficits and encourage private-sector activities in order to relieve themselves of the financial burdens of supporting inefficient public-sector enterprises; indications are that the debt-service ratio of a number of these countries will improve, especially since they may benefit from the "Trinidad Terms" adopted by the Paris Club in 1989 and which offer debt write-offs and relief to low- and middle-income countries.

The Gulf crisis took its toll on ESCWA banks' profitability and international standing. In addition to the withdrawal of significant amounts of private bank deposits, the cutting of international bank credit lines affected ESCWA banks. The intervention of concerned ESCWA central banks and monetary authorities to offset withdrawn deposits and support the liquidity position of affected banks has helped the banks cope with the crisis and present a remarkable equity/assets ratio, although this has been due to a drop in their interbank liabilities rather than an increase in shareholders' equities. Nevertheless, the relevance of ESCWA banks' activities to those of international financial centres has declined considerably, forcing many of them to reassess international activities, with a shift towards domestic markets.

The pre-Gulf crisis abundance of financial resources in the ESCWA region as a whole downplayed the urgency of establishing rationals of financial planning and management. The continuously increasing budget expenditures were made without proper scrutiny of feasibility or utility considerations. In all ESCWA countries, budget deficits have been the rule, not the exception. In the GCC countries, budget deficits have been financed either by oil revenues or by drawing on general reserve funds. In other ESCWA countries, the deficits have been financed partly by financial assistance and/or transfers from ESCWA GCC countries, and partly by external borrowing. The result has been on the one hand an increasing susceptibility of their economies to developments in GCC countries and on the other hand a rising external debt.

Likewise the ready availability of finance downplayed the need for GCC countries to develop a tax system as an instrument of budget and economic policy. Neither has it helped other ESCWA countries in the process of mobilization, management and allocation of financial resources. The Gulf crisis revealed the weaknesses of fiscal policies in both groups of ESCWA countries. Instead of dealing with the budgetary problems with efficient systems of taxation and resource mobilization and allocation, action has been limited to restrictive fiscal policies.

Financial constraints, magnified in recent years, have highlighted the need to adopt fiscal and monetary policies to achieve an efficient system of mobilization and allocation of financial resources and to increase the level of available resources for investment, commensurate with development needs and the objectives of the International Development Strategy.