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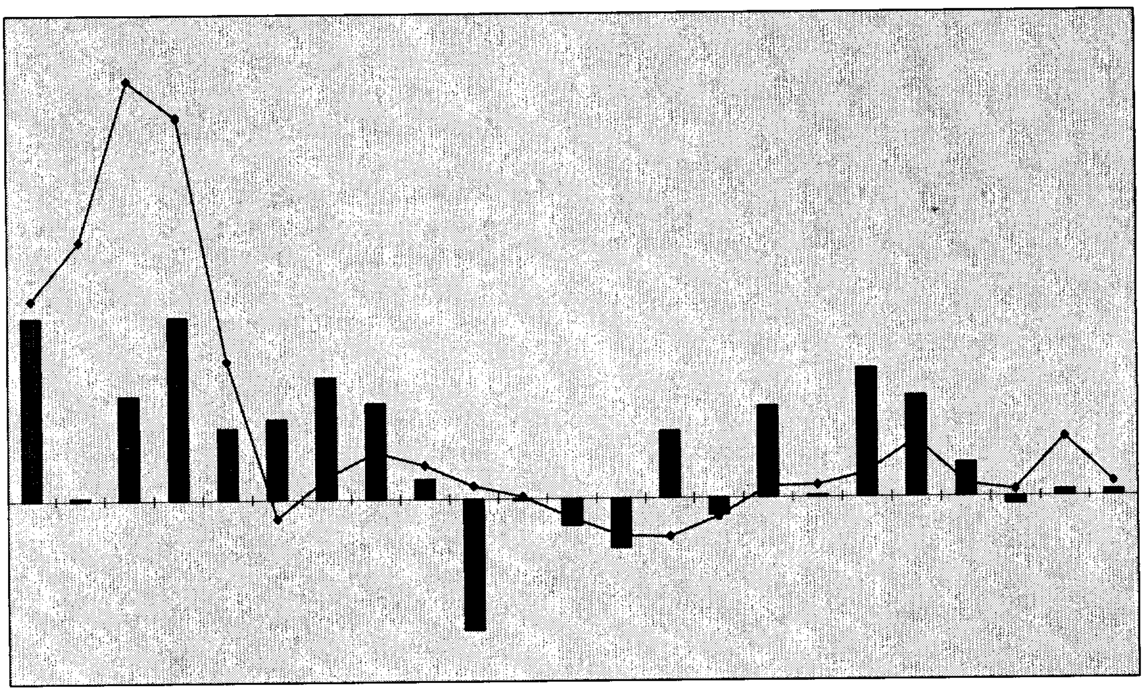
INFLATION IN THE ESCWA REGION: CAUSES AND EFFECTS



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EXPLANATORY NOTES

The following symbols have been used in the tables throughout the study:

Use of a hyphen (-) between dates representing years, for example, 1981-1983, signifies the full period involved, including the beginning and end years.

Two dots (..) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A hyphen (-) indicates that the item is not applicable.

A minus sign (-) before a figure indicates a decrease.

A slash (/) indicates a school year or a financial year (e.g., 1981/82).

Details and percentages do not necessarily add up to totals, because of rounding.

In both the text and tables of the study, references to "dollars" ($) indicate United States dollars, unless otherwise stated.

Bibliographical and other references have, wherever possible, been verified.

The Yemen Arab Republic and the People's Democratic Republic of Yemen merged on 22 May 1990 to form a single State (Yemen).

The following abbreviations have been used:

CPI	consumer price index
FDI	Foreign direct investment
GCC	Gulf Cooperation Council
GDP	gross domestic product
GNP	gross national product
ID	Iraqi dinar(s)
LL	Lebanese pound(s)
IMF	International Monetary Fund
OPEC	Organization of Petroleum Exporting Countries
PMA	Palestinian Monetary Authority
UNDP	United Nations Development Programme
WPI	wholesale price index

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Executive summary

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Inflation continues to be low in the Gulf Cooperation Council (GCC) countries,[1] mainly owing to price controls and subsidies. The experience of the more diversified economies[2] with inflation indicates varied performance in the past two and a half decades. Whereas Jordan managed inflation well, in both Egypt and the Syrian Arab Republic, inflation was much higher and continued for a more protracted period (till the early 1990s) before declining. In Lebanon the determinants of episodes of high inflation during the 1980s were different and were related more to exigencies of the civil war. In the West Bank and Gaza Strip, inflation has been primarily a function of Israeli inflation levels.

Inflation in Iraq is a special problem stemming from global political exigencies and the economic conditions in the country. The people of Iraq, especially the poor, face the most serious economic situation in the region.[3]

A. CAUSES OF INFLATION

Commodity price shocks have been the main reason behind inflation in the ESCWA member countries and all over the world. However, lessons learned from experience with inflation worldwide show that whereas exogenous shocks have been the major factor contributing to the rise in world and developing country inflation, the major determinant of the extent of the rise in inflation in each country has been its macroeconomic policy response to the shock.

Though the overall impact of inflation on the ESCWA region has been moderate because the region as a whole has been a net exporter of oil, the aggregate performance indicators for the region have masked wide variations in inflation performance. In the past 25 years, inflation has not been a problem in the GCC countries, except during the few years directly after the first oil price shock, primarily because of State subsidies and price controls. However, the more diversified economies have experienced cyclical patterns of inflation in line with commodity price changes; in some countries, inflation has risen to high, unsustainable levels.

During the period under review, the ESCWA member countries' concern with growth has remained paramount. To maintain the pace of growth, most of the more diversified economies initially resorted to external borrowing and later to deficit financing and credit creation. For the most part, the 1980s were years of recession in the ESCWA region. Structural disequilibria emerged, and a reallocation of resources towards more productive and efficient uses was required. As adjustment was postponed, external debt mounted, output fell, and inflation soared. During the 1980s, there was an inverse relationship between gross domestic product (GDP) growth and inflation in the region: as inflation rose, GDP growth declined in many of the ESCWA member countries.

Money growth was the prime determinant of inflation in the ESCWA region in the past. Large budgetary government expenditures were traditionally financed through money creation. The pattern was more or less the same in both the GCC countries and the more diversified economies, with large increases in

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[1] The members of the Gulf Cooperation Council include Bahrain, Kuwait, Qatar, Oman, Saudi Arabia and the United Arab Emirates.

[2] The more diversified economies in the region include Egypt, Jordan, Iraq, Lebanon, the Syrian Arab Republic, the West Bank and Gaza Strip, and Yemen.

[3] Fuad Al-Dahwi, an ESCWA consultant, prepared a background paper for the present study entitled "Inflation in Iraq: causes and effects, 1970-1998".

the domestic money supply, particularly during the 1980s, when most of region's economies relied on deficit financing. Statistical analysis reveals the close relationship between the money supply and changes in inflation in several countries; inflation closely followed the rise in money growth in countries such as Egypt, Iraq and the Syrian Arab Republic. As a result, seigniorage (inflation tax) formed a substantial part of government revenues in many of the more diversified economies.

Historically, in most of the member countries prices were controlled and State subsidies were provided for basic items such as food, education and health, and utilities, which helped to stabilize the general price level. In the 1990s, within the framework of reform programmes that included exchange rate liberalization, many of the member countries undertook measures to reduce consumer subsidies and decontrol prices of basic commodities. In recent years this resulted in substantial increases in the prices of basic goods such as fuel and food and contributed to inflation.

The civil war in Lebanon and the Gulf war (followed by economic sanctions) in Iraq had a severe impact on the prices of basic items, including food, in these countries. Both countries suffered from very high inflation during their periods of political conflict. The inflationary trend that started in the 1970s and intensified during the 1980s was augmented in the post-Gulf-war period and was further exacerbated by the continuation of economic sanctions against Iraq, which are still in effect.

B. EFFECTS OF INFLATION

The apparent effect of the sudden rise in inflation caused by the disruptions in the commodity markets in the past 25 years was to plunge the world economy into recessions. The world experienced a slowdown in output and growth in 1974 and 1975, 1980 to 1983, and 1990 and 1991.

The oil shocks of the past two and a half decades affected individual ESCWA member countries differently. In the GCC countries the surge in oil earnings in the 1970s ushered in an economic boom, and Governments invested heavily in human and physical infrastructure development, building ports, roads, telecommunications facilities, hospitals and schools.

Since inflation has been maintained at low levels in the GCC countries, its direct impact is difficult to ascertain. The decline in GDP and purchasing power during the 1980s was not effected by inflation in these countries. Controls on prices have repressed inflation and made it a non-issue in the GCC countries since the 1980s. However, overall economic policy management, including price controls, affects overall economic growth and development indirectly. Repressed inflation has its cost, since it does not send the correct signals to the market and distorts the allocation of resources. In the long run, it seriously affects economic growth.

The slowdown in GDP growth in the more diversified economies during the 1980s is attributable to several interrelated factors. The decline in the price of oil hurt the more diversified economies especially. The rise in world interest rates in the 1980s came at a time when many of the ESCWA member countries were relying on external financing to maintain output and growth. Economic management problems, characterized by over-regulation, price controls, inward looking policies and unsustainable levels of government borrowing, contributed to the slowdown in output. Finally, domestic and regional conflicts, such as the Lebanese civil war (1975-1991), the Yemeni civil war (1994), the Iran-Iraq war (1980-1988), and the Gulf war (1991) contributed to loss of output associated with episodes of rising inflation in the countries concerned.

C. INFLATION IN THE 1990S

Beginning in the early 1990s most of the ESCWA member countries initiated major reforms aimed at improving economic growth and efficiency. The cornerstone of these reforms was providing a stable macroeconomic environment with price stability. As a result, inflation levels declined in the 1990s and economic growth trends were positive. GDP growth was robust in the early 1990s for most of the more diversified economies. The success of structural reforms in Egypt and Jordan led to the resumption of growth after the lost decade of the 1980s. In Lebanon, political stability brought the return of economic stability, with the rate of real GDP growth rising rapidly from its low level during the civil war period.

Jordan is the paramount success story in the ESCWA region in terms of the management of inflation. Whereas all ESCWA member countries managed price stability through price controls and basic consumer subsidies, most underwent inflationary periods when some of these controls were dismantled. Compared with other more diversified economies, Jordan stands out in terms of its effective and conjunctive use of monetary and fiscal policies to prevent inflation from rising.

By the mid-1990s inflation had fallen to low levels. Since 1995, it has declined in almost all ESCWA member countries; most had single-digit inflation levels in 1997 and 1998 that almost matched the pre-oil-shock levels of the 1970s for the first time in two and a half decades. In Egypt and Jordan the adjustment programmes adopted in early 1990s have been a success, and price levels have remained low. For others in this group, such as the Syrian Arab Republic, that have undertaken indigenous economic reform programmes, inflation has come down substantially in comparison with the levels recorded in the late 1980s. Yemen is continuing with an adjustment programme aimed at restoring macroeconomic stability. In the three years since the programme was adopted, however, it has made substantial progress towards curtailing high inflation. In the West Bank and Gaza Strip inflation has come down, primarily owing to the decline in Israeli inflation but also owing to a slowdown in the Palestinian economy.

The decline in inflation in most of the more diversified economies during the past few years has been the result of a concerted effort to bring inflation down and provide a stable macroeconomic environment. This decline has also been propelled by the changes in the global environment. The liberalization of trade in the region has led to greater competition, which has in turn led to a reduction in prices. Such has been the experience in Egypt and the Syrian Arab Republic.

The momentum of the robust growth of the early 1990s has not been maintained in the past couple of years, however. Weaker aggregate demand contributed to a decline in GDP growth in most of the ESCWA member countries in 1997 and 1998.

Inflation in Iraq is a special case. Iraq remains the only ESCWA member country with very high inflation levels. The continuing economic sanctions and the ensuing scarcity have had a direct effect on the inflationary environment and have even led to hyperinflation in the country. The overall price level increased by 2,000 per cent between 1992 and 1996, primarily owing to increases in food and clothing prices, which rose by 1,500 and 1,755 per cent respectively during the period 1992-1995. With the economy heavily dependent on imports, a large part of the increase in prices was accounted for by the free market depreciation of the Iraqi dinar during this period.

D. RECOMMENDATIONS

There are many reasons for the slower growth and lower inflation witnessed in the late 1990s. Lower oil prices have led to reductions in government spending in most of the countries in the region. The East Asian crisis that emerged in mid-1997 led to a decreased demand for oil. In addition, the slow progress in the Middle East peace process has affected regional integration, economic development and investor confidence and therefore opportunities for rapid development.

Slower economic growth has contributed to falling prices through the mechanism of weaker demand and consumer spending. Economic liberalization within the structural adjustment programmes in many of the more diversified economies led to higher prices in the early 1990s, but there has since been a realignment of prices. As a result, whereas the average price level is high, the annual percentage increase is moderate to low. Furthermore, progress in economic reforms, including privatization, in countries such as in Egypt and Jordan has led to greater competition and has exerted a downward pull on prices in most countries. In Lebanon continued macroeconomic stability, particularly with respect to the exchange rate, has dampened inflationary pressures.

With new and emerging realities reshaping economic paradigms and the reinforced role of the free market enterprise, the cornerstone of development regimes should remain the effort to create and maintain a

stable macroeconomic environment. The most important issue has become how to maintain economic growth in the ESCWA member countries, while also maintaining price stability.

For the GCC member countries, maintaining economic growth and price stability will require the continued implementation of structural reforms, with greater emphasis on private sector participation, trade reform and export diversification.

For the MDEs such as Egypt, Jordan and the Syrian Arab Republic, a consolidation of economic reform programmes will be necessary in the near future.

To stimulate private investment, financial sector reforms need to be strengthened and the regulatory framework needs to be revised. At the same time, care should be taken that budgetary imbalances do not get out of control; further progress towards fiscal consolidation is necessary, especially in the Syrian Arab Republic.

In Lebanon inflation has been brought under control, primarily owing to the establishment of a stable macroeconomic regime, and in particular to the maintenance of exchange rate stability; however, there is a need to continue with deficit reduction as a major component of the inflation control strategy. Unless monetary policies and fiscal policies are used in conjunction with one another, long-term benefits in terms of sustained progress on inflation will be hard to achieve.

In the West Bank and Gaza Strip the politics of the peace process have dominated economic growth and development. The impending opening of the free passage between the Gaza strip and the West Bank and the recent opening of the newly constructed airport will mitigate the effect of border closures on the Palestinian economy. Progress in the peace process would increase investor confidence, employment opportunities, and the use of domestic capacity and would stimulate regional and international trade. It is in these areas that the Palestinian Authority will face challenges in the near future.

Apart from Iraq, Yemen was the only ESCWA member in 1998 with a more than single-digit inflation level. Yemen has made a good beginning in its economic stabilization and adjustment efforts; the major challenge now is to continue with the economic recovery programme. A cornerstone of its economic reform programme will be to further reduce inflation levels while also protecting the poor from the adverse effects of the reform measures.

As mentioned previously, inflation in Iraq is a special problem stemming from global political exigencies and the economic conditions in the country. The situation in Iraq is the most serious in the region, especially for the poor. The continuation of triple-digit levels of inflation in Iraq could have serious political, economic and social implications in the long run. A commitment should be made to reduce inflation. Second, the conjunctive and effective use of monetary and fiscal policies is required to curtail inflation. In the interim, the extent of subsidies should be expanded to reduce the impact of inflation.

Finally, lifting the sanctions would contribute significantly to improving the provision of domestic goods and services. However, this would have to be complemented by a commitment to rebuild the country. Once the sanctions were lifted, abundant foreign exchange resources would have to be directed towards modernizing the industry, agriculture and services sectors to enable Iraqi commodities to compete with similar goods produced abroad.

INTRODUCTION

The 1990s has seen a worldwide decline in the level of inflation. In some countries, inflation has consistently fallen and is at the lowest level in decades. In others, stabilization and adjustment programmes are in place to bring about an improvement in economic parameters, including inflation.

Countries of the ESCWA region are now exhibiting a downward trend in inflation. In the region as a whole, inflation has declined since the mid-1990s against a backdrop of robust global economic growth and low rates of inflation in the industrialized world. However, the aggregate level of inflation for the region as a whole masks variations in individual ESCWA member countries. Whereas inflation has remained low in the Gulf Cooperation Council (GCC) countries, hyperinflation has been witnessed in Iraq in recent years. Between these two poles have been the other more diversified economies, where inflation has ranged from low to moderate.

A major determinant of the differences in experiences of inflation among the ESCWA member countries can be traced to their economic policy regimes. There exists a commonality in economic policies in the GCC countries in terms of controls on prices of basic items, fixed exchange rates, surplus revenues and historical experience with low to moderate inflation. In Egypt, Jordan and Yemen, past economic policy regimes favoured expansionary fiscal policies that contributed to rapid growth in money, huge budgetary deficits, and a large public debt. The devaluation of the exchange rate in late 1980s and early 1990s under the International Monetary Fund (IMF) stand-by programmes set the stage for an economic stabilization programme, an important aim of which was to curb double-digit inflation and revive economic growth. With the application of the programme's reforms, the 1990s saw considerable progress in reducing inflation in these countries. The Syrian Arab Republic exhibits some of the characteristics of these regimes; while it has not adopted the IMF programme, its economic reform efforts, including the move towards liberalization, have had implications for inflation.

Whereas economic policies remain important determinants of inflation in the 1990s in the remaining ESCWA member countries as well, certain other exogenous factors seem to play an even greater role. In Iraq the causes of inflation are determined less by the leverage policy makers have on economic variables than by the country's economic isolation and its consequences for output and growth, which has pushed prices to hyperinflationary levels. In Lebanon the effects of the long civil war were manifested in rates of inflation that have proved to be sticky downwards. Though moderated, inflation remains higher in Lebanon than in most of the ESCWA member countries.

The case of the West Bank and Gaza Strip is unique. The extreme economic dependence of these areas on Israel has led to a situation where inflation is primarily "imported" from Israel. With no independent currency and with trade flows subject to interruption by frequent border closures, inflation in the West Bank and Gaza Strip is an almost entirely exogenous phenomenon.

An effort is made in the present study to analyse a number of important issues related to inflation in the ESCWA member countries within the historical context of the past 25 years. Particular attention is given to the underlying causes and effects of inflation, why some ESCWA member countries have higher levels and rates of inflation than others in the 1990s, the relationship of inflation with key monetary and fiscal policies and with economic growth in these countries, how the region compares with other regions of the world with respect to inflation, lessons that can be learned from other countries in the world (and even from the success stories within the region) for application in the ESCWA region, and finally, how successful the adjustment and stabilization programmes have been in containing inflation. These issues form the substance of this study.

For the purposes of this study, the ESCWA members are divided into the following three groups: (a) the GCC countries, where economic policy regimes have been instrumental in maintaining low levels of inflation; (b) the more diversified economies, where bouts of high inflation have been associated with a deteriorating economic climate; and (c) a smaller group of countries from among the more diversified economies in which external shocks have played a far greater role in determining the key economic parameters, in particular the level of inflation. In Iraq, Lebanon and the West Bank and Gaza Strip, the Gulf

war, the Lebanese civil war, and the continued economic dependence on Israel, respectively, have been the dominant determinants of the level and pattern of inflation, bringing into focus the importance of the role of the political economy of development.

Chapter I of the study presents a review of the experience of the ESCWA region as a whole with inflation during the past 25 years. Placed within the context of worldwide trends in inflation, this chapter covers the rise and fall of inflation in the major regions of the world and presents a comparative analysis. It also provides an explanation of the causes and effects of the past cyclical patterns of inflation that set the stage for current inflation levels. Chapter II presents the experiences of individual ESCWA member countries with inflation and explores why some countries had higher levels and rates of inflation than others. Chapter III includes an analysis of the causes of inflation, relating them to monetary and fiscal policy regimes. Chapter IV provides an analysis of the effects of inflation on economic growth. Chapter V presents the lessons learned from past experience with inflation in the ESCWA member countries and recommendations for the future.

A. Data limitations

The study relies primarily on data on inflation, as measured by the changes in consumer prices. Where available, wholesale price index (WPI) data and the GDP deflator have also been used. The IMF *International Financial Statistics* publications provide the data set for key economic indicators, including indicators on inflation. In some instances—for example, for relative prices of food, clothing and rent—ESCWA price series and statistics published by individual Governments have been used to supplement the data. As a result, the aggregate consumer price index (CPI) data for some of the more recent years (1995 to 1998) may be slightly different from the corresponding IMF data. In all instances the source is cited. Since the focus of the study is on examining and explaining the trends in inflation, the differences were considered acceptable in the interest of providing a more comprehensive analysis.

A consistent time series on consumer price inflation for the past 25 years is not available for the ESCWA region as a whole. For cross-regional comparisons, a data group for the "Middle East" is used that includes all ESCWA member countries except Iraq, plus Israel and the Islamic Republic of Iran.[4] Since a focus of the study is explaining trends in inflation over the past 25 years, and because data on Israel also covers the occupied territories, the data on the Middle East as a group may be regarded as the best available approximation of long-term trends in the ESCWA region.

There are some particularly acute problems with GDP data series for more than a decade. Most Governments constantly revise their GDP estimates, so this study has relied on GDP growth rates rather than on absolute figures for GDP.

Updated data on poverty and household consumption for all ESCWA member countries are rarely available, especially for the GCC countries, so data on national disposable income per capita have been used. Where available, income inequality and poverty estimates have been used for individual countries.

B. Definitions of inflation

Inflation is defined as an increase in the general price level. Hyperinflation is defined as a sudden rise in inflation that typically accelerates to triple-digit or even higher levels; hyperinflation is usually short-term. Chronic inflation is double- or triple-digit inflation lasting for years or even decades.

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[4] Israel is included in this group for the purposes of this study because its economy is inextricably linked to that of the West Bank and Gaza Strip.

I. INFLATION IN THE MIDDLE EAST: A HISTORICAL PERSPECTIVE

A. THE RISE AND FALL OF INFLATION: PAST TRENDS

Against a backdrop of robust growth, the 1990s has witnessed moderate levels of worldwide inflation. Inflation, as measured by changes in consumer prices, has declined to an all-time low in the industrialized countries. Meanwhile, many of the developing countries have succeeded in moderating inflation to levels not seen in two decades. Still others have been engaged in stabilization and adjustment programmes to bring about an improvement in economic parameters, including inflation.

Though average world inflation remained in the double digits in 1998, the aggregate rate masked large differences in individual inflation levels. High inflation was witnessed in a few countries, most notably in the economies in transition and in the developing countries of the western hemisphere, which experienced hyperinflation in the past decade.[5] Even for these two groups, considered volatile in inflationary terms, inflation slowed down considerably during the 1990s. Inflation has declined in the Middle East, as in other regions of the world, in the 1990s; by 1998 it was at its lowest in over two decades.

This chapter covers the rise and fall of worldwide inflation during the past 25 years. It presents a comparative analysis of inflation in the ESCWA member countries against the backdrop of world and regional trends with a view to providing a better understanding of the roots of inflation in the ESCWA region in the 1990s.

The determinants of the low level of inflation worldwide and in the ESCWA member countries in the 1990s can be traced back to the world's experience with high inflation during the past two decades and the policy responses to it.

Table 1 presents world inflation trends, as measured by consumer price changes, from 1970 to 1997. During the past two and half decades there were four major inflation peaks, experienced in 1973 and 1974, 1979 and 1980, 1988-1990, and 1994 (the last one was much less severe than the others).

1. *The first inflation peak 1973 and 1974*

The sudden increase in oil prices in 1973 and 1974 led to the first major world inflation peak in the past two and a half decades. World inflation levels, which were around 6 per cent for many years, rose from 9.8 per cent in 1973 to 16.3 per cent in 1974 (see table 1).

As figure 1 indicates, both the industrialized and the developing countries were adversely affected. As with the aggregate for the world, consumer prices in industrialized countries rose substantially, increasing by two and a half times in less than two years. Inflation rose from 4.8 per cent in 1972 to 7.9 per cent in 1973 and 13.4 per cent in 1974 (see table 1). The impact of inflation in the developing countries was much greater than that in the industrialized countries and the world as a whole. The rate of annual inflation in the industrialized countries, which had averaged around 7 per cent before the oil shock, more than tripled. Inflation in developing countries as a group, rose from under 10 per cent in the early 1970s to 22.6 per cent in 1974. Moreover, the annual inflation rates in the developing countries remained high (see figure 1). Between 1973 and 1976, inflation rose by an average rate of around 20 per cent per annum in the developing countries as a group.

[5] The economies in transition include the countries of the former Soviet bloc.

TABLE 1. WORLD INFLATION TRENDS, 1970-1997
(consumer price indices, annual percentage change)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
World	6.4	5.8	6	9.8	16.3	14.2	12.6	13	11.1	13.9	17.7	16.5	15.1	15.2
Industrialized countries[a/]	5.6	5.3	4.8	7.9	13.4	11.4	8.6	8.8	7.5	9.7	12.4	10.4	7.7	5.2
Developing countries[b/]	8.3	6.9	9	14.6	22.6	20.1	21.3	21.8	18.7	22.7	29	29.5	31.5	38.2
Asia[c/]	6.9	4.7	8.1	19.3	31.5	10.7	3.4	8.5	5.9	10.4	15.2	13.3	7.8	8.5
Middle East[d/]	2.3	4.1	5.1	10.6	15.2	16.2	14.8	15.8	11.5	14.2	23.5	21.8	20.3	20.1
Africa[e/]	6.1	6.1	5.7	8.8	13.5	18.2	17.1	19.8	16.2	17.3	15.7	20	13.9	18.3
Western hemisphere[f/]	12.3	13.7	17.5	25.5	29.9	37.2	52	44.4	37.5	41.7	51.5	57.4	66.3	99
Europe[g/]	..	6.5	5.3	7.7	9.2	8.8	7.2	9.6	13.8	17	26.2	19.3	37.9	20.5

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1st qtr. 1998
World	15.5	15.4	12	14.5	17.1	14.3	29.4	18	18.1	19.6	22.7	11.0	7.4	5.6	5.1
Industrialized countries[a/]	5	4.4	2.6	3.2	3.5	4.6	5.2	4.4	3.2	2.8	2.3	2.5	2.3	2.0	1.6
Developing countries[b/]	38.4	39.6	32.2	39.8	49.9	31.5	77.2	42.1	45.3	50.9	61.6	25.2	15.7	11.2	10.6
Asia[c/]	8.8	5.6	5.7	6.6	7.8	11	6.5	8.2	7.7	9.3	13.7	11.3	7.7	5.0	7.2
Middle East[d/]	20.3	17.4	16.8	20.4	18.2	14.2	10.9	13.3	12	10.8	12.1	19.3	11.4	6.5	6.6
Africa[e/]	18.5	14.1	15.6	16.6	20.8	22.2	16.5	31.5	44.9	36.6	60.2	38.4	25.0	12.8	6.7[h/]
Western hemisphere[f/]	111.8	130.2	88.7	123	114.6	79.8	504.7	148.1	170.8	239.2	265.6	44.2	22.8	13.7	10.5
Europe[g/]	22.8	23.2	24.4	30.9	58.2	105.1	153.8	82.2	86.7	66.2	72.0	50.6	45.0	58.2	56.2

Source: Data for the period 1970-1993 are taken from the International Monetary Fund, *International Financial Statistics Yearbook, 1997* (Washington, D.C., 1997), pp. 114-115; data for the period 1994-1997 are taken from the International Monetary Fund, *International Financial Statistics, August 1998*, No. 8 (Washington, D.C., 1998), pp. 56-60.

a/ Including Australia, Austria, Belgium, Belgium-Luxembourg, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, San Marino, Spain, Sweden, Switzerland, the United Kingdom and the United States.

b/ Including all countries not listed in the industrialized countries category.

c/ Including Afghanistan, American Samoa, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, the Cook Islands, Fiji, French Polynesia, Guam, Hong Kong, India, Indonesia, Kiribati, Korea, Lao People's Democratic Republic, Macao, Malaysia, Maldives, the Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, Nepal, New Caledonia, Pakistan, Papua New Guinea, the Philippines, Singapore, the Soloman Islands, Sri Lanka, Thailand, Tonga, Vanuatu, Viet Nam and Western Samoa.

d/ Including all ESCWA members (except Iraq and Palestine [the West Bank and Gaza Strip]) plus Israel and the Islamic Republic of Iran.

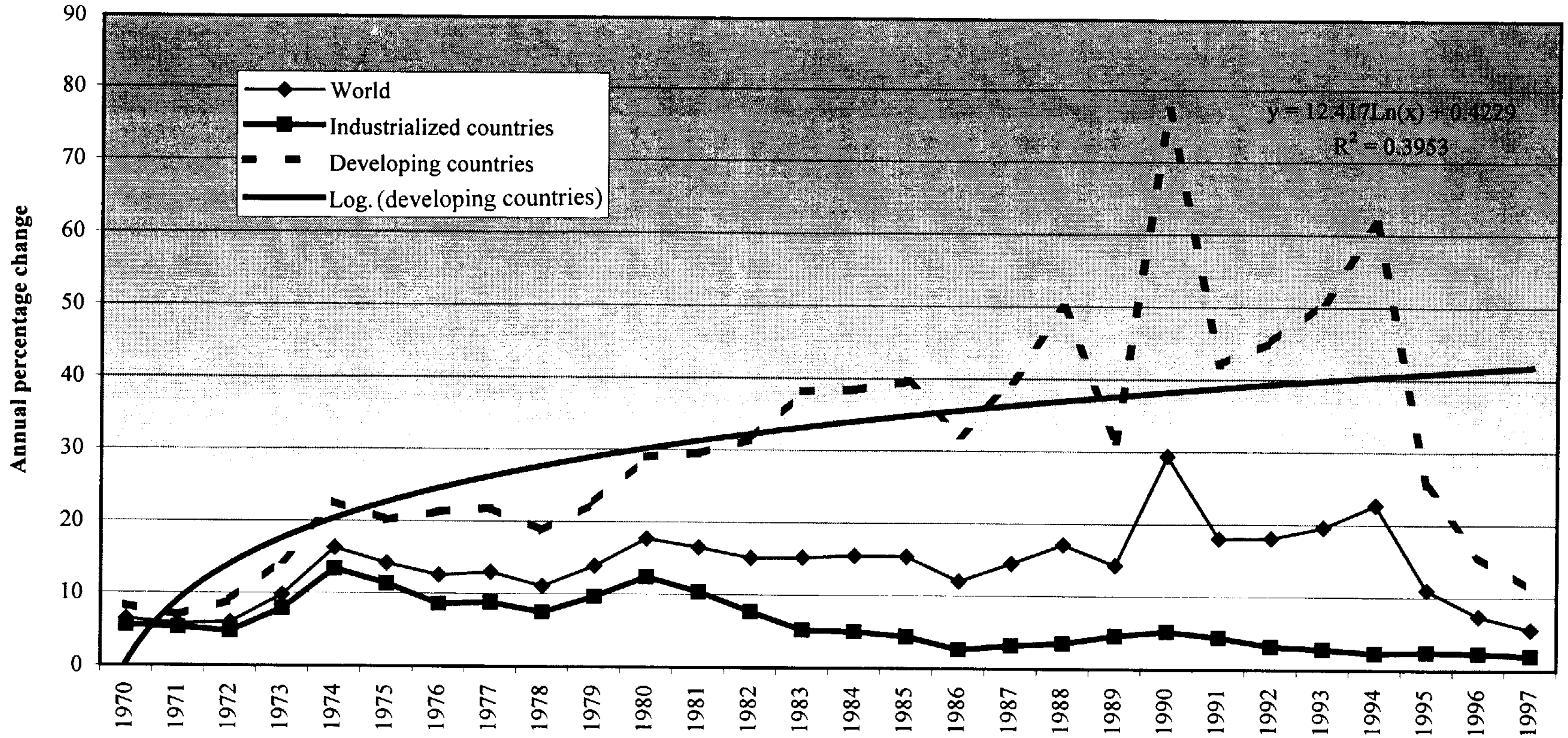
e/ Including Algeria, Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, the Central African Republic, Chad, the Comoros, the Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, the Gambia, Ghana, Guinea, Guinea-Bisau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocoo, Mozambique, Namibia, Niger, Nigeria, Réunion, Rwanda, Saint Helena, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Tanzania, Togo, Tunisia, Uganda, Zambia and Zimbabwe.

f/ Including Antigua and Barbuda, Argentina, Aruba, the Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, the Cayman Islands, Chile, Colombia, Costa Rica, Cuba, Dominica, the Dominican Republic, Ecuador, El Salvador, the Falkland Islands, Greenland, Grenada, Guadeloupe, Guatelmala, Guiana, French Guyana, Haiti, Honduras, Jamaica, Martinique, Mexico, Montserrat, NetherlandAnt, Nicaragua, Panama, Paraguay, Peru, Saint Kitts and Nevis, Saint Lucia, Saint Pierre and Miquelon, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Venezuela.

g/ Including the countries in transition: Albania, Belarus, Croatia, Cyprus, the Czech Republic, Czechoslovakia, Estonia, Hungary, Kazakhstan, Latvia, Lithuania, Malta, Poland, Romania, the Russian Federation, Slovakia, Slovenia, Turkey, Ukraine and Yugoslavia.

h/ Last quarter 1997.

Figure 1. World inflation, 1970-1997



Note: Figure is based on table 1 of the present study.

The effect of the first oil price shock aggravated inflationary pressures in most regions of the world. The oil price shock of 1973 and 1974 pushed inflation levels in the Middle East up to double-digit levels; in two years, inflation tripled, rising from 5.1 per cent in 1972 to 10.6 per cent in 1973 and again to 15.2 in 1974 (see table 1). The inflation rate in Asia jumped from 8.1 per cent in 1972 to 19.3 per cent in 1973 and to 31.5 per cent in 1974 (see table 1 and figure 2). In the developing countries of the western hemisphere, inflation rates reached more than 30 per cent and continued to rise for the next decade. Inflation in the developing countries of Europe, most of which are now referred to as the economies in transition, remained moderate, since State controls in the (then) socialist economies did not allow the higher fuel prices to be passed on to the consumer. Inflation rose, but only moderately, from 7.7 per cent in 1973 to 9.2 per cent in 1974.

The first oil price shock gave rise to three distinct phenomena: it disrupted the historically stable patterns of world and developing country inflation and raised inflation to double-digit levels for the first time since the Second World War; it led to the highest level of inflation ever experienced by the industrialized economies as a group in the previous 25 years; and it set the stage for future inflationary periods in the developing world by altering financial resource patterns between countries and affecting their capacity for economic growth, at least in the short term.

2. *The second inflation peak, 1979 and 1980*

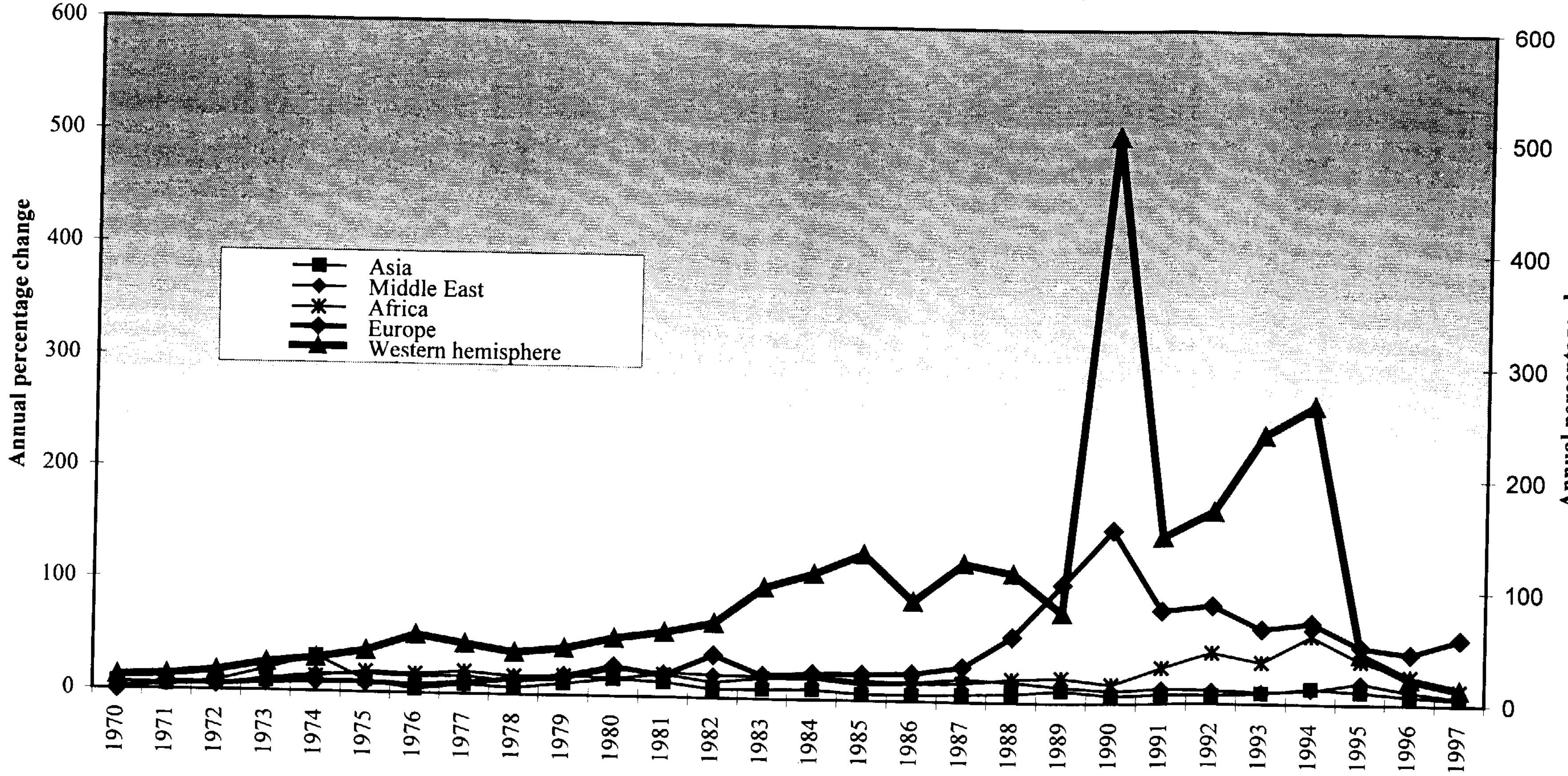
In 1979 and 1980 the second oil price shock pushed the rate of world inflation even higher. World inflation increased from 13.9 per cent in 1979 to 17.7 per cent in 1980. Inflation in the industrialized countries, which had moderated to 9.7 per cent by 1979, rose again, reaching 12.4 per cent in 1980. The developing countries as a group were hit severely as well; consumer prices increased by 22.7 per cent in 1979, by 29.0 per cent in 1980 and by 38.2 per cent in 1983 (see table 1), and inflation, which was already high, began to rise following the oil price increase and kept rising for the next decade and a half, till the mid-1990s. Figure 1 indicates the increasing log linear trend in developing country inflation.

The second oil price shock in 1979 and 1980 exacerbated the upward trend in inflation in all regions of the world, but had a different impact in each area. Inflation levels rose less in countries that had responded quickly to the first oil shock and the consequent burst of inflation by adopting contractionary monetary policies, even at the cost of reducing output. Asian economies, which had taken adequate steps to contain aggregate demand during the period from 1975 to 1980 were affected much less than the developing countries in other regions. Asian inflation, which had been brought down from a peak of 31.5 per cent in 1974 after the first oil price shock to 5.9 per cent by 1978, rose again to 15.2 per cent in 1980 as a result of the second oil price increase (see table 1). Inflation increased to high levels in the developing western hemisphere countries, averaging a high 45.4 per cent during the period 1976-1980.

In the Middle East, inflation peaked in 1980 at 23.5 per cent per annum when consumer prices rose in most of the countries of the region. Thereafter, regional inflation levels ranged between 16 and 20 per cent till around 1987, when they started declining in most of the countries in the area. This decline continued declining in the 1990s except for in the Republic of Iran where consumer price increases registered around 50 per cent in 1994-1995.

The period starting with the drop in oil prices in 1982 was one of declining inflation and a general recession in the world economies. Concerted efforts made by the industrialized countries led to decrease in inflation levels from 1983 to 1986. For the other groups of countries, the recessionary world economic climate slowed the growth rate of output, which, in turn, moderated the rise in inflation during the 1980s.

Figure 2. Trends in regional inflation (developing countries), 1970-1997



Note: Figure is based on table 1 of the present study.

TABLE 2. REGIONAL INFLATION TRENDS, 1970-1997
(*Rates of increase*)

	1970-1975	1976-1980	1981-1985	1986-1990	1991-1997
World	9.8	13.7	15.5	17.5	14.6
Industrialized countries[a/]	8.1	9.4	6.5	3.8	2.8
Developing countries[b/]	13.6	22.7	35.4	46.1	36.0
Asia[c/]	13.5	8.7	8.8	7.5	9.0
Middle East[d/]	8.9	16.0	20.0	16.1	12.2
Africa[e/]	9.7	17.2	17.0	18.3	35.6
Western Hemisphere[f/]	22.7	45.4	92.9	182.2	129.2
Europe[g/]	7.5	14.8	24.7	74.5	65.8

Source: Data for the period 1970-1993 are taken from the International Monetary Fund, *International Financial Statistics Yearbook, 1997* (Washington, D.C., 1997), pp. 114-115; data for the period 1994-1997 are taken from the International Monetary Fund, *International Financial Statistics, August 1998*, No. 8 (Washington, D.C., 1998), pp. 56-60. For details on individual years, see table 1 of the present study.

a/ Including Australia, Austria, Belgium, Belgium-Luxembourg, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, San Marino, Spain, Sweden, Switzerland, the United Kingdom and the United States.

b/ Including all countries not listed in the industrialized countries category.

c/ Including Afghanistan, American Samoa, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, the Cook Islands, Fiji, French Polynesia, Guam, Hong Kong, India, Indonesia, Kiribati, Korea, Lao People's Democratic Republic, Macao, Malaysia, Maldives, the Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, Nepal, New Caledonia, Pakistan, Papua New Guinea, the Philippines, Singapore, the Soloman Islands, Sri Lanka, Thailand, Tonga, Vanuatu, Viet Nam and Western Samoa.

d/ Including all ESCWA members (except Iraq and Palestine [the West Bank and Gaza Strip]) plus Israel and the Islamic Republic of Iran.

e/ Including Algeria, Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, the Central African Republic, Chad, the Comoros, the Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, the Gambia, Ghana, Guinea, Guinea-Bisau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocoo, Mozambique, Namibia, Niger, Nigeria, Réunion, Rwanda, Saint Helena, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Tanzania, Togo, Tunisia, Uganda, Zambia and Zimbabwe.

f/ Including Antigua and Barbuda, Argentina, Aruba, the Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, the Cayman Islands, Chile, Colombia, Costa Rica, Cuba, Dominica, the Dominican Republic, Ecuador, El Salvador, the Falkland Islands, Greenland, Grenada, Guadeloupe, Guatelmala, Guiana, French Guyana, Haiti, Honduras, Jamaica, Martinique, Mexico, Montserrat, NetherlandAnt, Nicaragua, Panama, Paraguay, Peru, Saint Kitts and Nevis, Saint Lucia, Saint Pierre and Miquelon, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Venezuela.

g/ Including the countries in transition: Albania, Belarus, Croatia, Cyprus, the Czech Republic, Czechoslovakia, Estonia, Hungary, Kazakhstan, Latvia, Lithuania, Malta, Poland, Romania, the Russian Federation, Slovakia, Slovenia, Turkey, Ukraine and Yugoslavia.

Inflation in the developing world as a whole did not decline, however Table 2 shows aggregate inflation levels for different regions of the world. The average rate of inflation for developing countries rose from 35.4 per cent during the period 1981-1985 to 46.1 per cent during the period 1986-1990 (see table 2). Again, these high aggregate averages masked wide variations between different regions and between individual countries. Although inflation rose in all regions of the world, the rates of increase differed. In Asia, inflation fell from 8.5 per cent in 1983 to 5.6 per cent in 1985 as the Governments in this region sought to restore growth and remove structural imbalances in their economies. Inflation in Africa averaged around 17 per cent between the mid-1970s and the early 1990s. In the Middle East, annual increases in price levels remained high, ranging from 17 to 20 per cent during the period 1981-1985, then declined. The most seriously affected were the developing countries in the western hemisphere and the economies of Eastern Europe, as both groups had initiated major economic reform programmes that were adversely affected by the disruptions in the commodity markets. Many of these economies were pushed into a hyperinflationary spiral as a result of the slowdown in their economic reform processes in an adverse external environment.

Box 1. Hyperinflation and chronic inflation in selected developing countries

The high aggregate rates of developing country inflation during the past 25 years reflect periods of hyperinflation and/or chronic inflation in a few of the developing economies. Most of these occurred in a few countries of the western hemisphere and, in the past decade, in a few of the developing countries in Europe, which have undertaken market-oriented reform programmes.

The world inflationary periods came about in an environment in which many of the economies in both the western hemisphere and Europe were undergoing serious structural reforms, a major aim of which was to control inflation. Because of this, the developing countries of the western hemisphere were hit especially hard by the two commodity price shocks. The continued implementation of expansionary fiscal policies in these countries during the 1970s had exacerbated budgetary deficits; by the time the second oil shock occurred, most of these economies were confronted with a debt crisis. Many of the countries, including Argentina, Bolivia, Brazil, Mexico and Peru, experienced triple-digit inflation and severe economic recessions. In a few cases these high levels of inflation translated into a hyperinflationary spiral.[a/]

In Brazil inflation averaged around 1,600 per cent per annum from 1988 to 1994.[b/] In other countries of the western hemisphere grappling with severe macroeconomic imbalances, chronic inflation set in during the period after the second oil price shock, continuing till 1990 and beyond. The rise in oil prices in 1990 and 1991 owing to the Gulf war occurred concurrently with a deterioration in non-oil commodity prices and droughts in parts of South America, which further depressed output. Inflation peaked at 504.7 per cent in 1990 in the developing countries of the western hemisphere as a group—the highest rate recorded among all major regions of the world in the past 25 years.

In 1989 many of the developing countries in Europe, including most of those that had once formed part of the Soviet Union, initiated the transition from a socialist to a private-sector-led economy. Price liberalization and the removal of State subsidies constituted an inherent part of the reforms. Among other things, this necessitated a one-time increase in the price level; with the surge in prices, most of these economies suffered from double- and triple-digit inflation well into the 1990s.

Levels of inflation in the developing countries of Europe were closely related to the efficacy of the reform processes instituted. After the initial price liberalization, which resulted in high levels of inflation, the adjustment and stabilization policies, including tight monetary policies, were instrumental in reducing overall price levels in the countries of Central Europe. Inflation, which had peaked at around 159 per cent in 1990, declined to around 120 per cent in 1991 in these countries as a group.[c/] This high regional aggregate was primarily a reflection of the triple-digit inflation in Bulgaria and the former Yugoslavia.

The world recession of 1990, coupled with commodity price changes, made reforms more difficult in some of the other developing countries in Europe. Their slower progress led to a resurgence in inflation in the early 1990s, in part owing to the continued State support of inefficient enterprises. The lack of effective monetary and fiscal discipline impeded the objective of controlling inflation. In the countries of the former Soviet Union as a group, inflation surged from 5.4 per cent to around 95 per cent in a single year (1990).[d/] The price level in Russia reached record highs, with inflation at 1,353 per cent in 1992 and 896 per cent in 1993.[e/]

Notwithstanding hyperinflation, the continuation of market reforms and a firm commitment have helped to bring down overall inflation levels in these economies in recent years. Inflation has declined substantially, dropping from triple- to double-digit levels. By 1997, the aggregate level of inflation for this group had declined to 38.4 per cent per annum.

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a/ Refer to the definition in the introduction to the present study.

b/ International Monetary Fund, *International Financial Statistics Yearbook, 1997* (Washington, D.C.,1997), p. 115.

c/ International Monetary Fund, *World Economic Outlook, May 1993* (Washington, D.C., 1993), p. 146.

d/ Ibid.

e/ International Monetary Fund, *World Economic Outlook, May 1998* (Washington, D.C., 1998), p. 163.

3. *The third and the fourth inflation peaks: 1988-1991 and 1994*

During the period 1988-1998, trends in consumer prices led to two more inflationary peaks: one between 1988 and 1990 and another in 1994. Table 3 shows the peak levels of inflation recorded for the major regions of the world during the years the commodity price shocks occurred.

TABLE 3. PEAK LEVELS IN INFLATION IN RESPONSE TO COMMODITY SHOCKS, 1974-1998
(*Annual percentage changes in consumer price index*)

	1974	1980	1990	1994
World	16.3	17.7	29.4	22.7
Industrialized countries a/	13.4	12.4	5.2	2.5
Developing countries b/	22.6	29.0	77.2	61.6
Asia c/	31.5	15.2	6.5	13.7
Middle East d/	16.2	23.5	13.3	19.3
	(1975)		(1991)	(1995)
Africa e/	18.2	20.0	31.5	60.4
	(1995)	(1981)	(1991)	
Western hemisphere f/	44.4	51.5	504.7	265.6
	(1977)			
Europe g/	9.2	26.2	153.8	72.0

Source: Data for the period 1970-1993 are taken from the International Monetary Fund, *International Financial Statistics Yearbook, 1997* (Washington, D.C., 1997), pp. 114-115; data for the period 1994-1997 are taken from the International Monetary Fund, *International Financial Statistics, August 1998*, No. 8 (Washington, D.C., 1998), pp. 56-60. (Based on table 1 of the present study).

a/ Including Australia, Austria, Belgium, Belgium-Luxembourg, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, San Marino, Spain, Sweden, Switzerland, the United Kingdom and the United States.

b/ Including all countries not listed in the industrialized countries category.

c/ Including Afghanistan, American Samoa, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, the Cook Islands, Fiji, French Polynesia, Guam, Hong Kong, India, Indonesia, Kiribati, Korea, Lao People's Democratic Republic, Macao, Malaysia, Maldives, the Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, Nepal, New Caledonia, Pakistan, Papua New Guinea, the Philippines, Singapore, the Soloman Islands, Sri Lanka, Thailand, Tonga, Vanuatu, Viet Nam and Western Samoa.

d/ Including all ESCWA members (except Iraq and Palestine [the West Bank and Gaza Strip]) plus Israel and the Islamic Republic of Iran. For the purposes of this study, Israel serves as the proxy for the Palestinian Authority.

e/ Including Algeria, Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, the Central African Republic, Chad, the Comoros, the Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, the Gambia, Ghana, Guinea, Guinea-Bisau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocoo, Mozambique, Namibia, Niger, Nigeria, Réunion, Rwanda, Saint Helena, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Tanzania, Togo, Tunisia, Uganda, Zambia and Zimbabwe.

f/ Including Antigua and Barbuda, Argentina, Aruba, the Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, the Cayman Islands, Chile, Colombia, Costa Rica, Cuba, Dominica, the Dominican Republic, Ecuador, El Salvador, the Falkland Islands, Greenland, Grenada, Guadeloupe, Guatelmala, Guiana, French Guyana, Haiti, Honduras, Jamaica, Martinique, Mexico, Montserrat, NetherlandAnt, Nicaragua, Panama, Paraguay, Peru, Saint Kitts and Nevis, Saint Lucia, Saint Pierre and Miquelon, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Venezuela.

g/ Including the countries in transition: Albania, Belarus, Croatia, Cyprus, the Czech Republic, Czechoslovakia, Estonia, Hungary, Kazakhstan, Latvia, Lithuania, Malta, Poland, Romania, the Russian Federation, Slovakia, Slovenia, Turkey, Ukraine and Yugoslavia.

The impetus for the third world inflationary peak was provided by the rise in non-fuel commodity prices in 1988. Subsequently, in 1990, the sudden though temporary rise in oil prices following the invasion of Kuwait fuelled inflationary trends. Inflation in the industrialized countries as a group rose from 4.6 per cent in 1989 to around 5.2 per cent in 1990. The average inflation rate for developing countries, more than doubled from 31.5 per cent in 1989 to 77.2 per cent in 1990, the highest level recorded for the developing for this group in the past 25 years (see tables 1 and 3). Inflation, though somewhat moderated, subsequently

remained at over 45 per cent for the developing world as a whole in 1992 and even increased to 50.9 per cent in 1993.

In this inflationary environment, the further rise in non-oil commodity prices in 1994 turned the terms of trade against many of the oil-importing countries and gave rise to the fourth inflationary peak in the developing countries as a group; prices rose by more than 60 per cent in Africa, by almost 266 per cent in the developing countries of the western hemisphere, and by 72 per cent in the developing countries of Europe (see table 3). In the Middle East and Asia, both regions where inflation was being tightly controlled, prices rose only nominally.

The most notable characteristic of the 1994 commodity price shock was that it did not affect inflation levels globally; relatively speaking, the shock was not severe. Existing economic conditions and appropriate domestic policy responses in many economies contributed to keeping prices fairly stable. The industrialized countries as a group remained unaffected by the shock; the downward inflationary trend continued, with inflation declining to an all-time low of 2.5 per cent in 1994.

B. TRENDS IN INFLATION: A COMPARATIVE ANALYSIS

A comparative analysis of world trends in inflation during the past 25 years highlights several different features of inflation in the industrialized and developing countries.

One, the effect of the first two oil price shocks on both the industrialized and developing countries was adverse and severe; the world had never experienced such high levels of inflation as it did in the aftermath of the two oil shocks.

Two, after the initial rise, inflation in the developing countries did not decline; instead, it drifted upwards during the 1980s and the early 1990s.

Three, inflation rates in the industrialized economies eventually dropped back down to, and even lower than, the levels recorded in the early 1970s, before the first oil price shock; however, the same was not true for the developing economies. Inflation in the industrialized countries peaked at 13.4 per cent in 1974, directly after the first oil price rise. Owing to determined efforts to deal with the problem, the level of inflation in the industrialized countries as a group has never risen above this figure; in fact, inflation in these countries has remained in the single digits since 1982. However, for the developing countries as a group, inflation reached double-digit levels in 1974 and have remained there ever since.

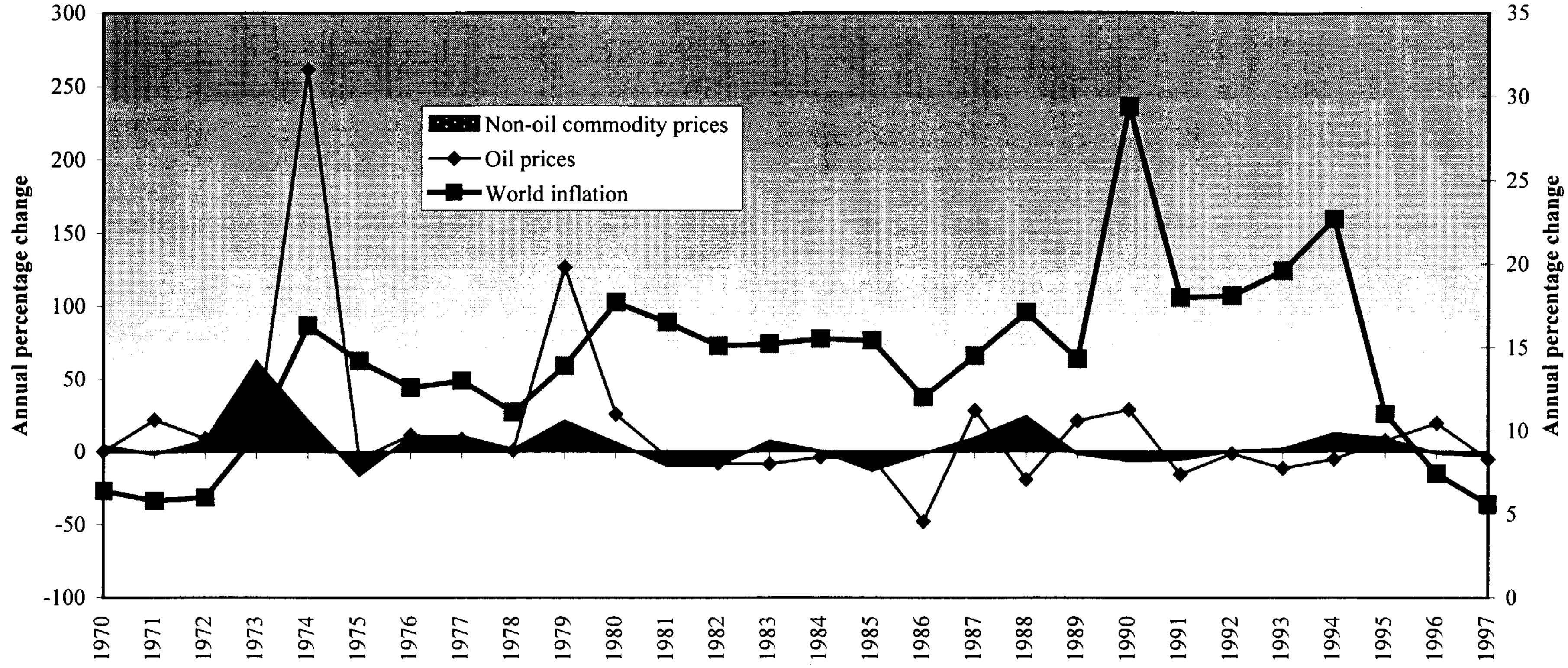
Four, purely exogenous factors were primarily responsible for the increase in inflation in the developing countries during the period 1974-1981. The subsequent increases in the aggregate rate of inflation for the developing countries as a group have primarily been a reflection of the very high rates of inflation in the economies in transition in Europe (which were undergoing economic reforms and shifting from a socialist to a market-oriented economy) and the hyperinflation in a few of the developing countries of the western hemisphere. The impact of the 1990s commodity shocks has been less severe elsewhere.

Five, whereas commodity price shocks, and especially the first two exogenous shocks, affected inflation globally, individual country inflation levels (and therefore regional levels) were determined by macroeconomic policy responses to these shocks.

C. CAUSES OF INFLATION

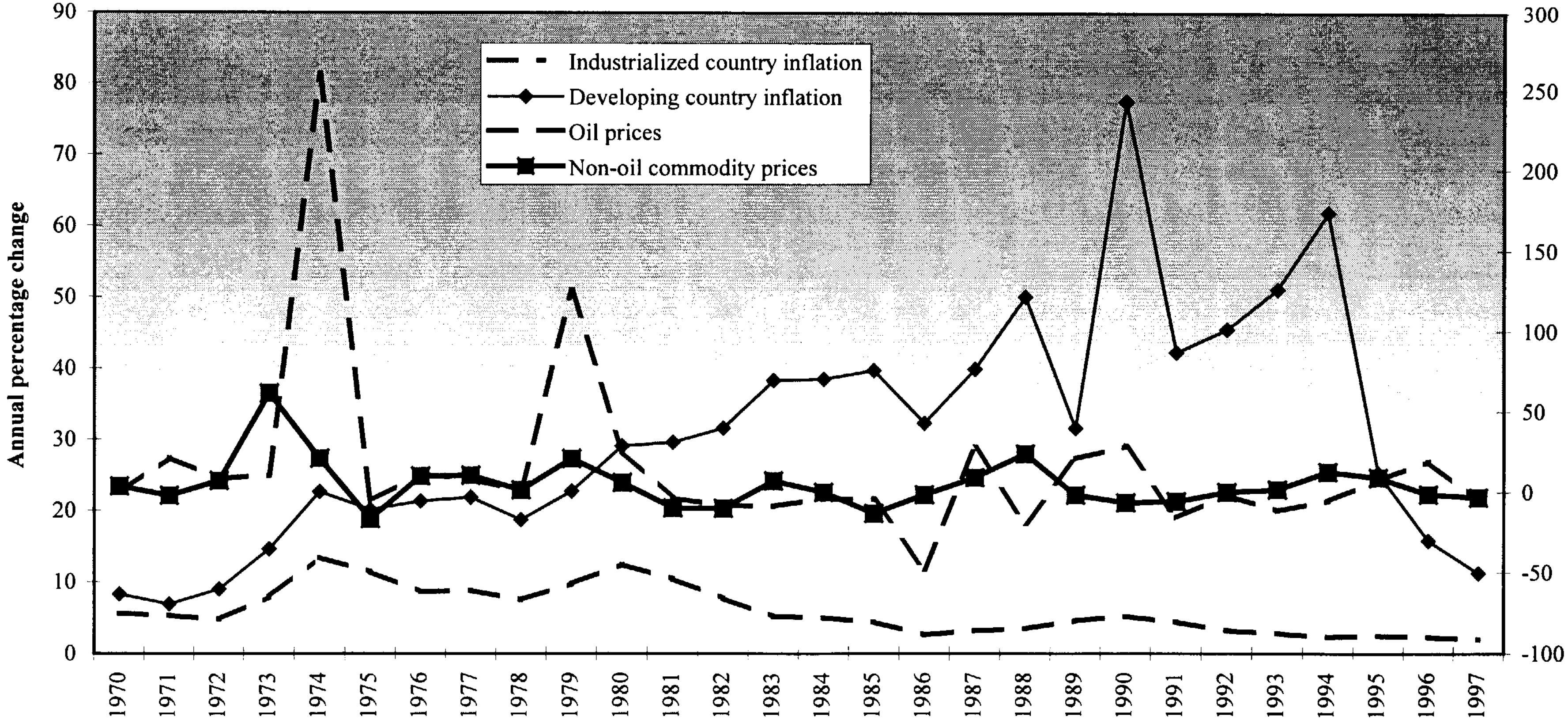
A review of the rise and fall in inflation over the past 25 years indicates that inflationary peaks occurred in response to exogenous shocks to the world economic environment in the form of commodity market disruptions. The first two were related to an abrupt rise in the price of oil. Figures 3, 4 and 5 indicate the close association between commodity shocks and inflation peaks. The first two world and developing country inflationary peaks occurred in 1974, when oil prices quadrupled, and in 1980, when oil prices trebled. Similarly, the increases in world inflation in 1990 and 1994 occurred directly after the rise in oil prices in 1990 and 1991 and the rise in non-oil commodity prices in 1994 and 1995.

Figure 3. Commodity prices and world inflation, 1970-1997



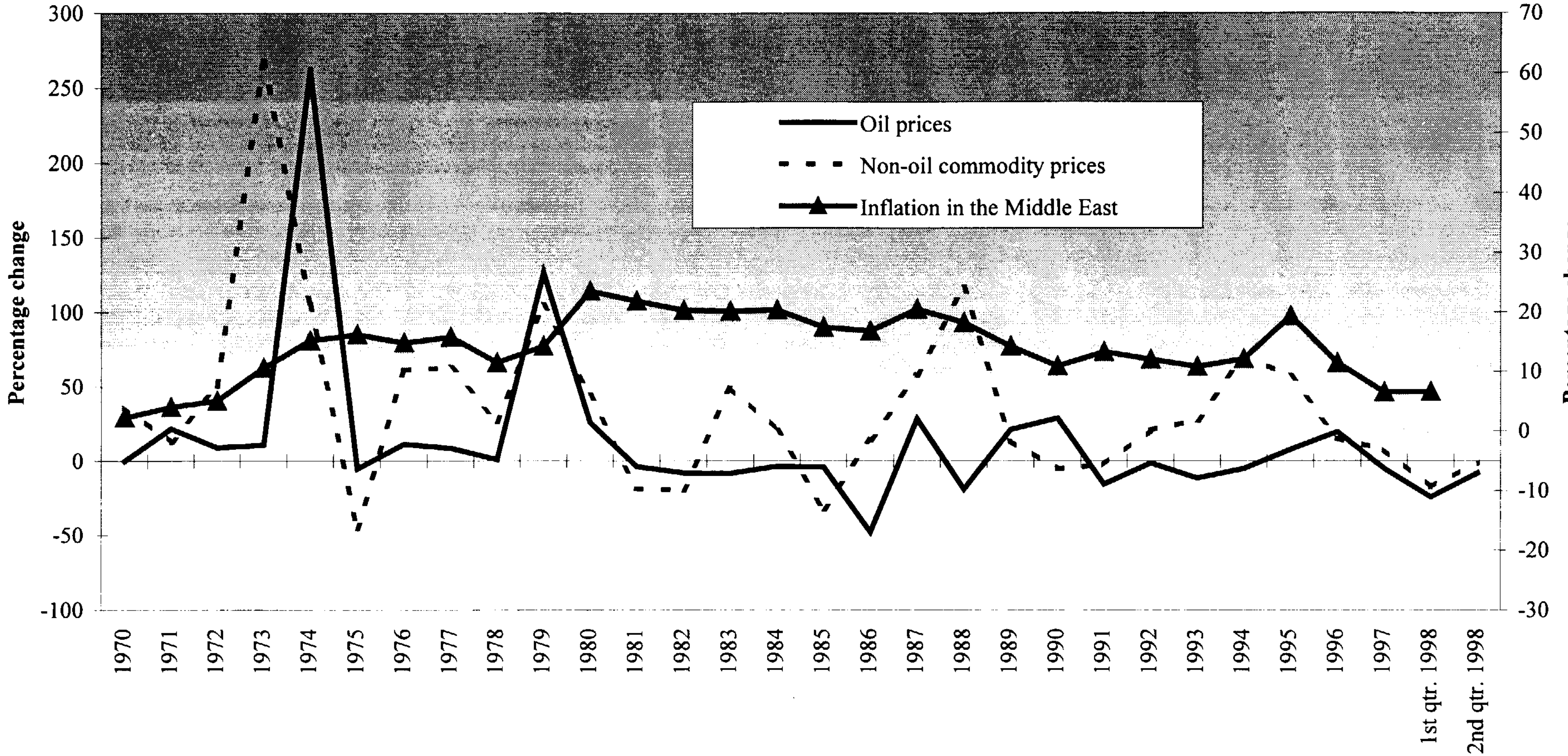
Note: Figure is based on tables 1 and 18 of the present study.

Figure 4. Commodity prices and industrialized and developing country inflation, 1970-1997



Note: Figure is based on tables 1 and 18 of the present study.

Figure 5. Commodity price shocks and inflation in the Middle East, 1970-1998



Note: Figure is based on tables 1 and 18 of the present study.

All three of the major world inflationary peaks came at a time when worldwide demand pressures were high and commodity markets were booming. At the time of the first shock in the early 1970s, the initial (baseline) conditions were such that a small exogenous shock could severely disrupt the economic equilibrium. Fiscal policies in most countries were already expansionary, with capacity constraints pushing inflation upwards. In this environment, when the first oil price shock came, it propelled inflation even more sharply upwards.

Though monetary policies were tightened to deal with the rise in inflation following the first oil price shock, the overall response to inflation was less than adequate. Most of the industrialized countries adopted an accommodating response to the situation. A few, including Germany and Switzerland, adopted tight contractionary policies with the explicit aim of reducing inflation. In other countries, including the United States, the response fell short of what was required and set the basis for a sharper rise in inflation when the second oil price rise occurred (see box 2).

Box 2. Policy measures to control inflation in the industrialized countries

After the commodity price shocks of the 1970s the industrialized countries made a concerted effort to control inflation. In the 1980s these countries began to reorient their economic policies: fiscal and labour market reforms were introduced, and maintaining price stability became a key macroeconomic policy objective. These adjustments helped to reverse the recession that had set in in the aftermath of the exogenous shocks and to revive economic growth. Maintaining low inflation through limited monetary accommodation, which formed the core of the strategy and served to limit the impact of subsequent inflationary peaks.

SELECTED MONETARY POLICY INDICATORS FOR MAJOR INDUSTRIALIZED COUNTRIES, 1970-1997*

By the time the third inflationary spiral occurred in 1990, monetary authorities in the industrialized countries were quick to respond with a tightening of monetary policies. The table below indicates that interest rates were tightened, as was money growth. At the same time, the stimulus provided through fiscal balances was consistently low. Even though this affected real demand and output, the ensuing recession was less deep than had been the case during earlier episodes of inflation. In the United States, as well as in Germany and other European countries, monetary policies were forcefully tightened to contain inflationary pressures. Short-term interest rates in the seven major industrialized countries as a group were reduced from double digits in early 1980s to 4.7 by 1993.

	1971-1980	1981	1983	1985	1987	1989	1991	1993	1995	1997
Interest rates a/	..	14.1	9.3	8.4	6.7	8.7	7.7	4.7	5.4	4.2
M1 b/	..	6.6	9	8.8	4.8	-0.6	7.1	8.8	5.3	4.1
Real domestic demand	2.9	1	3.2	3.3	3.2	3.1	1.2	1.2	2.5	3
Fiscal balance c/	..	-3.6	-4.1	-4.7	-3.4	-2.4	-2.7	-4.3	-3.4	-1.4

Source: International Monetary Fund, *World Economic Outlook*, October 1989, October 1990, May 1993 and May 1998 issues (Washington, D.C.).

* Canada, France, Germany, Italy, the United Kingdom and the United States.

a/ Short-term (3-month) interest rates.

b/ Annual percentage change.

The developing world was largely unprepared to offer appropriate policy responses to the inflationary spurt of the early 1970s. With financial markets at a lower level of development and monetary policy consequently circumscribed, the developing countries did far less than what was required in terms of adopting policies to reduce aggregate demand to curb inflation. Fiscal policies continued to be expansionary in many countries, especially the oil-exporting countries. The deterioration in the terms of trade for the oil-importing countries further compounded the existing fiscal imbalances. Though a few countries, especially in Asia, countered by tightening monetary policies, most countries resorted to borrowing to maintain their expansionary impulses, especially during the decade of the 1980s.

The third oil price rise was much less severe than the first two; the average spot price of oil in August 1990 was only 50 per cent higher than the average 1989 price.[6] However, the rise occurred following a period (1987-1988) during which prices of non-oil commodities had risen suddenly and substantially. Non-oil commodity prices rose by an average of 24 per cent in 1988 (see figure 4); within this category, the price of food and metals rose much more. In less than three years between 1987 and 1990, these commodity market disturbances pushed developing country inflation up to 77.2 per cent—the highest level recorded in 25 years.

The subsequent commodity price increase in 1994 was also due to a rise in non-oil commodity prices. Both of these commodity price increases retarded efforts to control inflation in many developing countries, especially in the western hemisphere and in Europe, where high inflation was experienced owing to market disruptions.

An interesting feature of the 1990 and 1994 commodity price shocks was that inflation in the industrialized countries did not increase significantly. By the 1990s, these countries were following tight monetary policies and were much less dependent on Middle Eastern oil. Economic activity was near or exceeding full capacity in all major industrialized countries, including Canada, Germany, Japan and the United States, by 1987 or 1988. Even before 1990, these countries had increased short-term interest rates to prevent inflation. Generally tight market conditions helped to moderate the impact of the rise in oil prices after the Gulf crisis in 1990 and 1991. Inflation rose only slightly from 4.6 per cent in 1989 to 5.2 per cent in 1990; it declined the next year (see box 2).

The varied experiences of different regions and countries indicate that whereas the commodity price shocks were a contributing factor, the major determinants of inflationary changes and trends were the economic conditions prevailing before the shocks and the economic policies adopted by the countries in response to the shocks.

D. EFFECTS OF INFLATION

The prima facie effect of the sudden rises in inflation caused by the disruptions in the commodity markets in the past 25 years was to plunge the world economy into recessions. The world experienced slowdowns in output and growth in 1974 and 1975, between 1980 and 1983, and in 1990 and 1991.

Table 4 indicates the close association between the episodes of high inflation and output changes. The effect of the initial commodity price shock was reflected in a deep economic recession from 1974 to 1975; world real GDP growth declined from 5.9 per cent in 1973 to 2.3 per cent in 1974 and to 1.4 per cent in 1975. The effect of the second oil price shock was much greater, with world output growth falling to 0.4 per cent in 1982. Figure 6 presents the world GDP growth trends for the period 1970-1996. It indicates that world output declined sharply under the first two recessions; the effects of the subsequent shocks were milder. In the developing countries, the volatility of output was indicative of the expansionary policies applied in the midst of the commodity price shocks (see figure 7). With the upward trend in consumer price inflation, real GDP changes were highly cyclical.

[6] International Monetary Fund, *World Economic Outlook, October 1990* (Washington, D.C.), p. 33.

TABLE 4. WORLD GDP TRENDS, 1970-1997
(*Annual percentage growth in real GDP*)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
World	3.4	3.7	4.7	5.9	2.3	1.4	5.3	4.4	4.1	4.1	3.0	1.6	0.4	2.6	4.9
Industrialized countries[a/]	3.0	3.4	5.0	5.9	0.7	-0.1	4.5	3.7	4.1	3.3	1.5	1.4	-0.3	2.8	4.5
Developing countries[b/]	4.4	4.4	3.9	5.9	5.9	4.5	6.8	5.6	0.4	5.3	5.6	1.7	1.7	2.3	5.4
Asia[c/]	6.0	4.0	3.0	7.0	4.2	6.1	6.0	7.5	7.2	4.3	6.8	5.9	5.0	7.4	8.3
Middle East[d/]	9.1	10.5	10.1	10.5	6.5	7.1	14.1	5.6	-1.8	6.5	0.6	-6.0	1.1	2.4	1.5
Africa[e/]	5.9	3.4	3.5	5.3	6.4	1.3	4.7	3.7	1.5	4.2	5.1	1.4	..	-1.0	2.1
Western hemisphere[f/]	4.8	6.4	7.1	8.1	6.7	3.7	6.1	4.8	4.6	6.7	6.5	0.7	-0.7	-2.6	4.0
Europe[g/]	..	..	..	..	..	..	..	..	..	..	..	-2.7	-0.5	3.0	4.1

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1970-1975	1976-1980	1981-1985	1986-1990	1991-1995
World	4.0	3.4	3.9	4.5	3.3	2.7	2.2	3.2	2.9	4.4	3.4	3.6	4.2	2.4	3.6	3.2
Industrialized countries[a/]	3.3	2.8	3.2	4.3	3.2	2.1	1.1	1.7	1.0	2.9	2.1	3.0	3.4	2.1	3.1	1.8
Developing countries[b/]	5.1	4.3	5.0	4.9	3.4	3.6	3.9	5.6	6.0	6.6	5.5	4.8	4.7	2.8	4.2	5.5
Asia[c/]	8.1	6.7	7.8	9.2	5.6	5.6	6.2	8.9	8.4	9.2	8.5	5.1	6.4	6.7	7.0	8.2
Middle East[d/]	1.9	-1.1	4.5	0.8	1.7	8.2	5.9	4.8	3.8	3.2	4.4	9.0	5.0	-0.3	2.8	4.4
Africa[e/]	3.3	2.7	2.0	5.0	3.2	2.7	1.1	-0.6	1.9	3.2	..	4.3	3.8	0.8	3.1	1.4
Western hemisphere[f/]	3.3	3.7	3.2	0.8	1.8	0.4	3.2	2.6	3.8	5.1	0.9	6.1	5.7	0.4	2.0	3.1
Europe[g/]	2.2	3.3	1.4	1.8	-0.7	-1.8	-8.5	..	..	..	..	..	..	1.0	0.8	-8.5

Source: Data for the period 1970-1993 are taken from the International Monetary Fund, *International Financial Statistics Yearbook, 1997* (Washington, D.C., 1997), pp. 114-115; data for the period 1994-1997 are taken from the International Monetary Fund, *International Financial Statistics, August 1998*, No. 8 (Washington, D.C., 1998), pp. 56-60.

a/ Including Australia, Austria, Belgium, Belgium-Luxembourg, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, San Marino, Spain, Sweden, Switzerland, the United Kingdom and the United States.

b/ Including all countries not listed in the industrialized countries category.

c/ Including Afghanistan, American Samoa, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, the Cook Islands, Fiji, French Polynesia, Guam, Hong Kong, India, Indonesia, Kiribati, Korea, Lao People's Democratic Republic, Macao, Malaysia, Maldives, the Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, Nepal, New Caledonia, Pakistan, Papua New Guinea, the Philippines, Singapore, the Soloman Islands, Sri Lanka, Thailand, Tonga, Vanuatu, Viet Nam and Western Samoa.

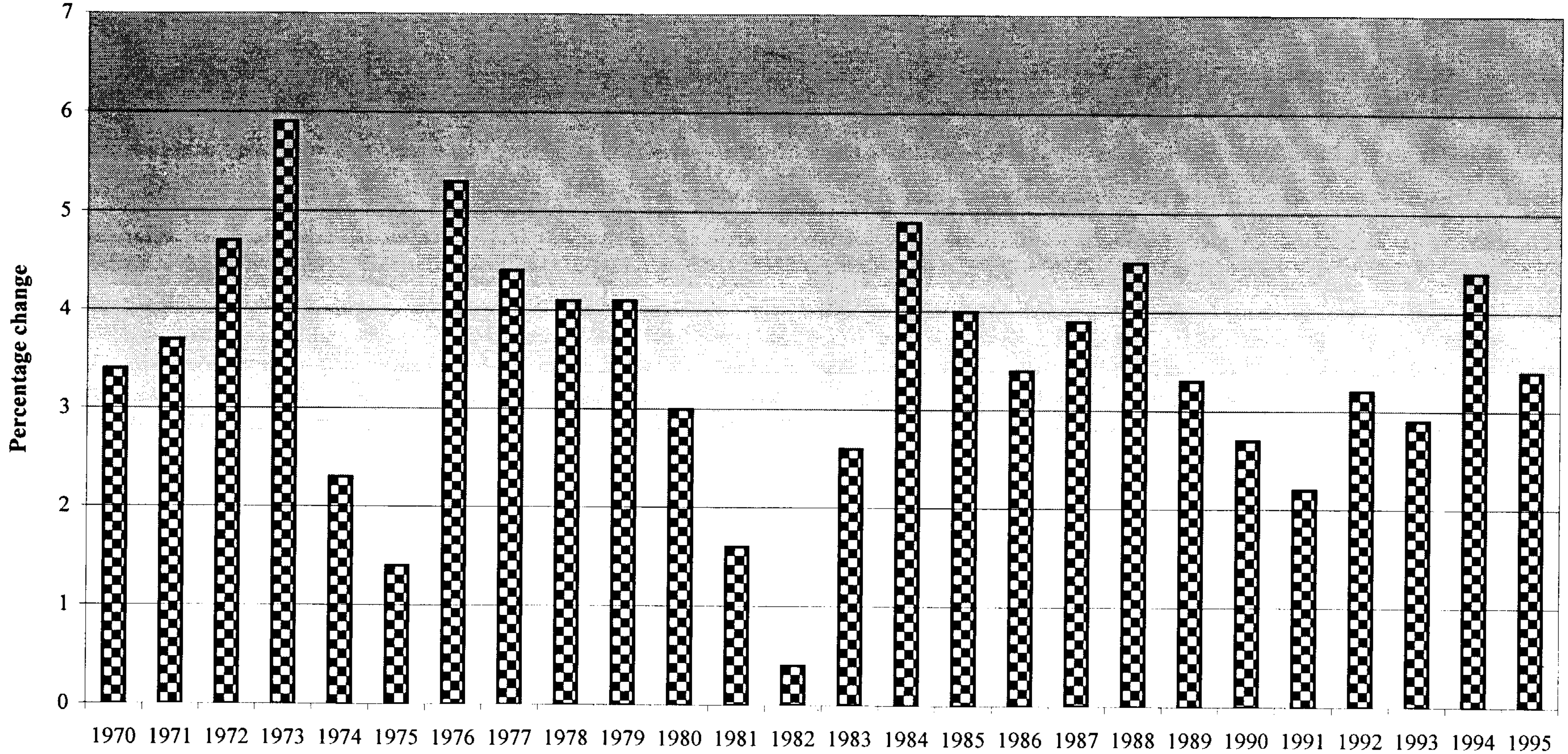
d/ Including all ESCWA members (except Iraq and Palestine [the West Bank and Gaza Strip]) plus Israel and the Islamic Republic of Iran.

e/ Including Algeria, Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, the Central African Republic, Chad, the Comoros, the Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, the Gambia, Ghana, Guinea, Guinea-Bisau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocoo, Mozambique, Namibia, Niger, Nigeria, Réunion, Rwanda, Saint Helena, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Tanzania, Togo, Tunisia, Uganda, Zambia and Zimbabwe.

f/ Including Antigua and Barbuda, Aregentina, Aruba, the Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, the Cayman Islands, Chile, Colombia, Costa Rica, Cuba, Dominica, the Dominican Republic, Ecuador, El Salvador, the Falkland Islands, Greenland, Grenada, Guadeloupe, Guatelmala, Guiana, French Guyana, Haiti, Honduras, Jamaica, Martinique, Mexico, Montserrat, NetherlandAnt, Nicaragua, Panama, Paraguay, Peru, Saint Kitts and Nevis, Saint Lucia, Saint Pierre and Miquelon, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Venezuela.

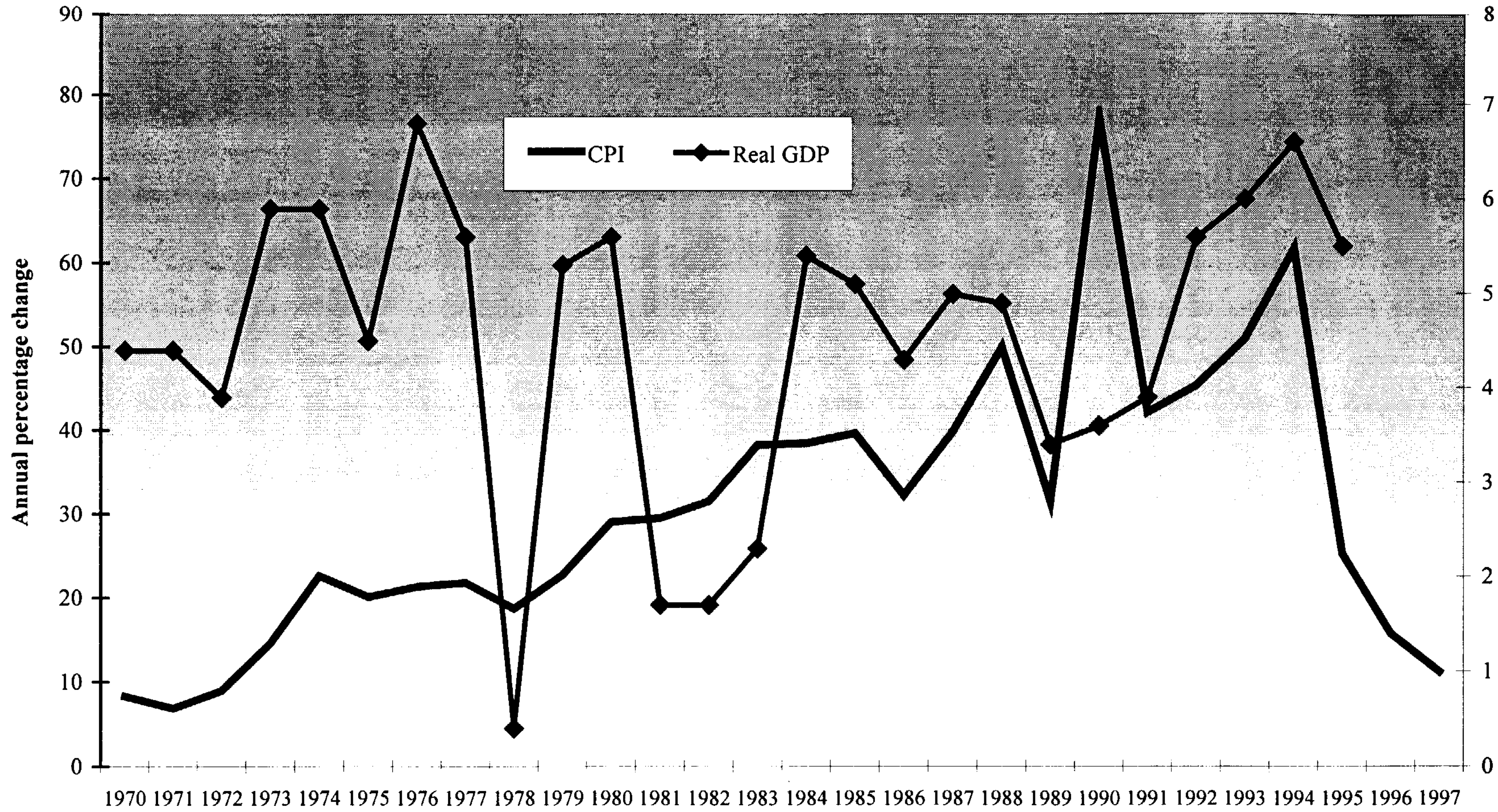
g/ Including the countries in transition: Albania, Belarus, Croatia, Cyprus, the Czech Republic, Czechoslovakia, Estonia, Hungary, Kazakhstan, Latvia, Lithuania, Malta, Poland, Romania, the Russian Federation, Slovakia, Slovenia, Turkey, Ukraine and Yugoslavia.

Figure 6. World real GDP growth, 1970-1995



Note: Figure is based on table 4 of the present study.

Figure 7. Real GDP growth and inflation in the developing countries, 1970-1997



Note: Figure is based on table 4 of the present study.

Cause and effect are interlinked. The commodity price shocks in the past 25 years, particularly the first two oil price shocks, were directly responsible for raising domestic consumer and producer prices and lowering aggregate demand and GDP growth in the world. The recession and the slowdown in economic activity in the industrialized countries and in the world as a whole affected the demand for exports from developing countries. The increases in the price of oil translated into a decline in the aggregate supply and a lower level of output in most of the non-oil-producing countries. As monetary policies were tightened to reduce demand, particularly in the industrialized countries, interest rates rose, which further affected developing countries by raising their debt burden and making economic adjustment difficult. Particularly hard hit were the oil-importing countries, as their terms of trade deteriorated, fiscal imbalances increased, external debts soared and disposable income and output fell.

Another major effect of the rise in world inflation levels related to resource transfers.[7] As a result of the two oil price rises, significant changes occurred with respect to the transfers between the oil-exporting countries and the oil-importing countries, and between the industrialized countries as a group and the developing countries as a group. With the resource transfers after the first oil price increase, the current account surplus for all of the oil-exporting countries combined rose from US$ 4.1 billion in 1973 to US$ 62.6 billion 1974.[8] There was a corresponding increase in the deficits of both the industrialized countries and the developing oil-importing countries. The current account balance of the industrialized countries moved from a surplus of US$ 18.9 billion to a deficit of US$ 8.5 billion, while the oil-importing countries' combined deficit increased to US$ 33.1 billion.[9] The oil price rises in 1973 and 1974 and 1979 and 1981 resulted in the transfer of about 2 per cent of the gross national product (GNP) of the industrialized countries to the oil-exporting countries.[10] Because of the resource transfers, the current account surplus for the Middle East as a whole increased to 14.6 per cent of GDP by 1982.[11]

Figure 8 presents output growth in the Middle East in comparison with that in the developing world as a whole. As might be expected, output rose in the Middle East directly after oil prices increased and fell when oil prices declined, as they did in 1982. Linear trends of output indicate less volatility in Asia than in other regions. The most adversely affected were the low-income oil importing developing countries as a group. Higher oil prices had a direct effect on the import bills of these countries, but it also affected the demand for their exports in other developing countries, since most of these countries were in recession.

The world recessions following the oil price shocks affected individual countries and groups of countries differently. The impact of the external shocks on countries depended upon the initial conditions, the trading environment, the availability of international flows, and economic policy regimes.

Inflation in the Middle East

A regional comparison of the statistical data indicates that the first two exogenous price shocks (in 1973 and 1974 and in 1979 and 1980) had a moderate impact on the Middle East in terms of inflation. The subsequent commodity price disruptions (in 1990 and 1991 and in 1994) also affected this region less than most other regions of the world. It can thus be said that the Middle East has fared better than other regions of the world over the past 25 years, mainly because it has been a net exporter of oil. Despite structural imbalances, most countries of the Middle East have experienced the hyperinflation or chronic inflation witnessed in other regions of the world. Further, notwithstanding the third and the fourth commodity shocks, inflation levels have actually declined in the 1990s; in 1997 and 1998 inflation rates were in the single digits, having fallen almost to the pre-oil-shock levels of the early 1970s for the first time in two and a half decades.

As mentioned previously, the aggregate inflation levels for the region have sometimes masked wide variations in inflation performance over the past 25 years.

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7 Resource transfer is defined as the balance on goods and non-factor services.

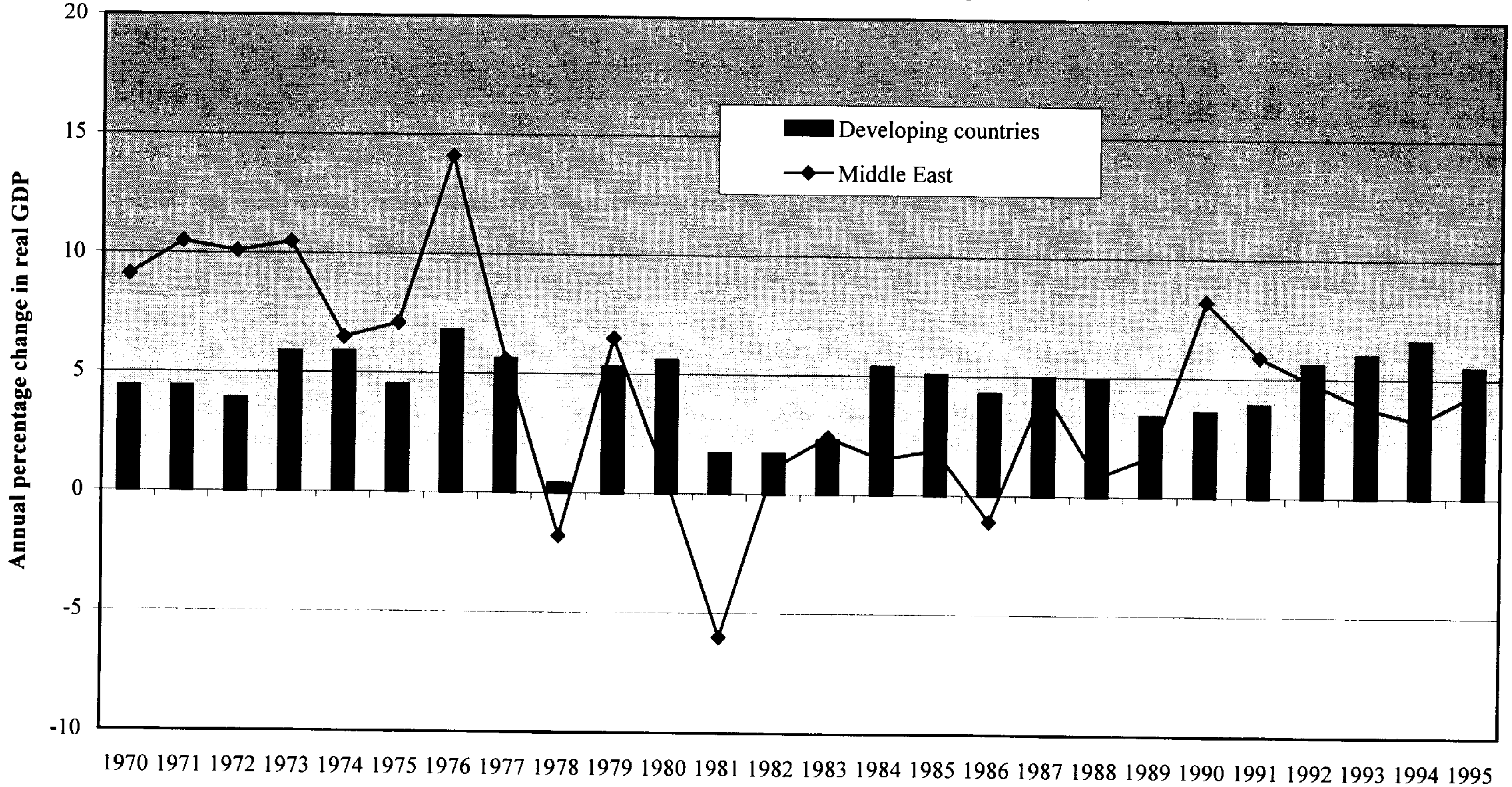
8 World Bank, *World Development Report, 1981* (New York and Oxford, Oxford University Press, August 1981), p. 53.

9 Ibid.

10 Ibid.

11 International Monetary Fund, *World Economic Outlook, October 1989* (Washington, D.C.,1989) p. 51.

Figure 8. Output changes in the Middle East and developing countries, 1970-1995



Note: Figure is based on table 4 of the present study.

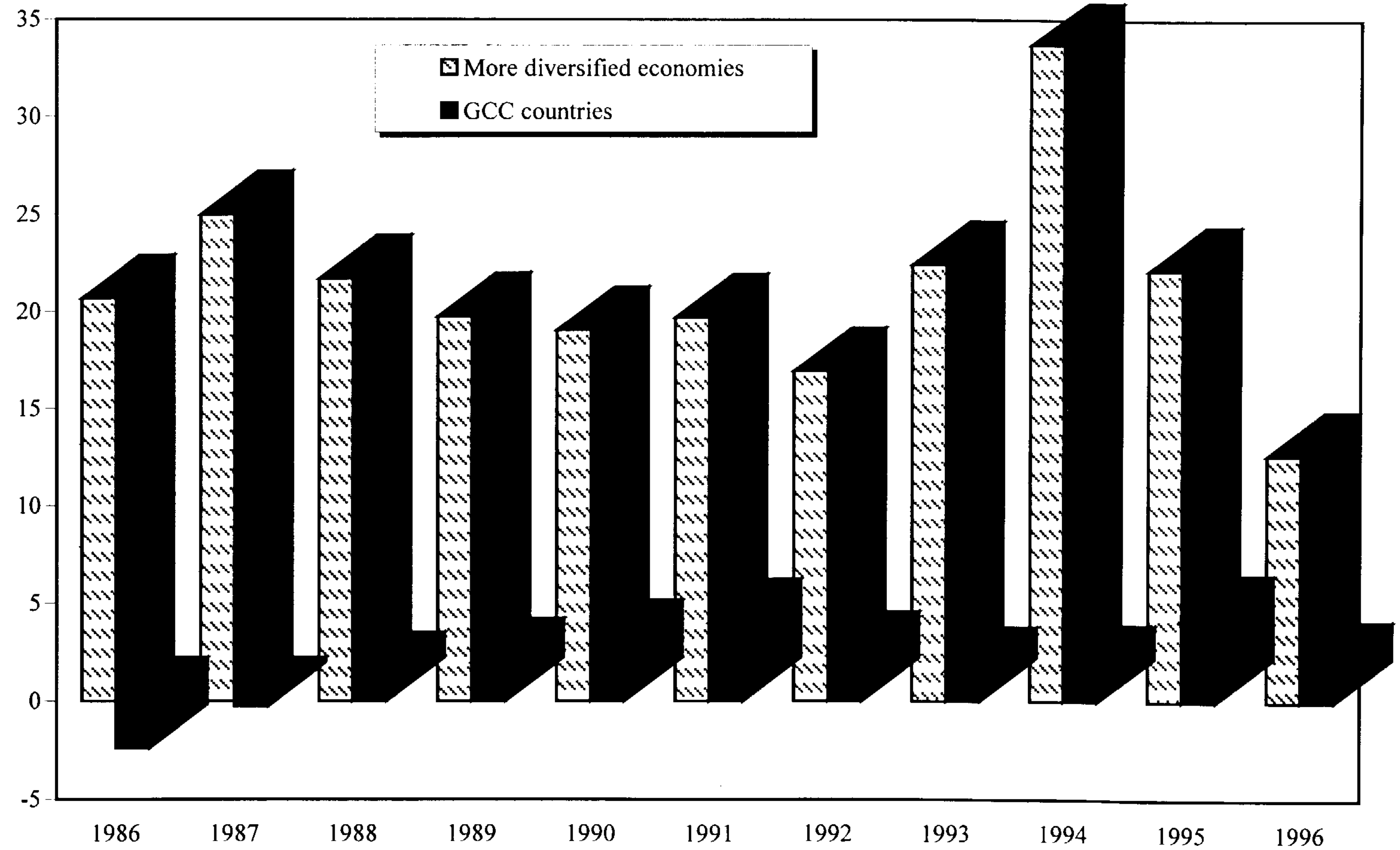
In several countries in the Middle East, economic policy responses to inflationary episodes were less than adequate. Many countries, including a number in Asia, made an effort to bring inflation rates down after the commodity price shocks; however, in most of the countries in the ESCWA region expansionary fiscal policies contributed to the inflationary environment, especially during the 1980s. In the Middle East, as in other regional clusters of developing countries (except Asia), inflation rose to double-digit levels and remained there for most of the past two and a half decades; more precisely, inflation in the Middle East was in the double-digits for 24 out of 28 years between 1970 and 1997.

Inflation has never been a problem in the GCC countries, except during the few years directly after the first oil price shock. The oil-exporting GCC countries have been able to maintain low levels of inflation by subsidizing basic necessities; the highest level recorded for this regional grouping was 4 per cent in 1991, after the Gulf war. However, as many of the more diversified economies undertook adjustment programmes to open up their economies, inflation for this group rose to double-digit levels. Between 1986 and 1996 inflation in the more diversified economies averaged a high 21.2 per cent per annum. Since the mid-1990s, however, inflation has declined in almost all of the more diversified economies, except Iraq, as concerted efforts have been made to implement serious economic adjustment and reform measures. Figure 9 shows the differences between the two groups of ESCWA members in terms of inflation performance for the period 1986-1996. Again, inflation performance remains a function of the initial economic environment, the economic policy response to structural imbalances, and the speed with which reforms are carried out.

In the past 10 years, however, the variations in economic policy responses to inflation-related issues have lessened somewhat between the two broad country groupings in the ESCWA region, namely, the GCC States and the more diversified economies, and in spite of the different strategies adopted, both have contributed to bringing inflation down to manageable levels.

Subsequent chapters in this study explore individual country experiences with, and economic policy responses to, inflation.

Figure 9. Inflation in the GCC countries and the more diversified economies, 1986-1996



Note: figure is based on annex table 20 of the present study.

II. ADJUSTMENT, STABILIZATION AND INFLATION

This chapter presents the experiences of individual ESCWA member countries with issues relating to inflation. Inter-temporal data are used to explore the economic policy regimes of the GCC countries and the more diversified economies with a view to analysing how the ESCWA members endeavoured to combat inflation. The chapter also presents recent experiences with reform in the 1990s and examines how adjustment policies and the reform programmes affected—and were affected by—the level of inflation in individual ESCWA member countries.

The ESCWA region as a whole experienced moderate bouts of inflation compared with some of the other regions of the world, but there were some marked differences between countries within the region. Inflation in the GCC countries has not been a major problem, having been kept low through subsidies and State interventions. In the more diversified economies, however, inflation-related issues have been a problem since the 1980s.

A. INFLATION IN THE GCC COUNTRIES

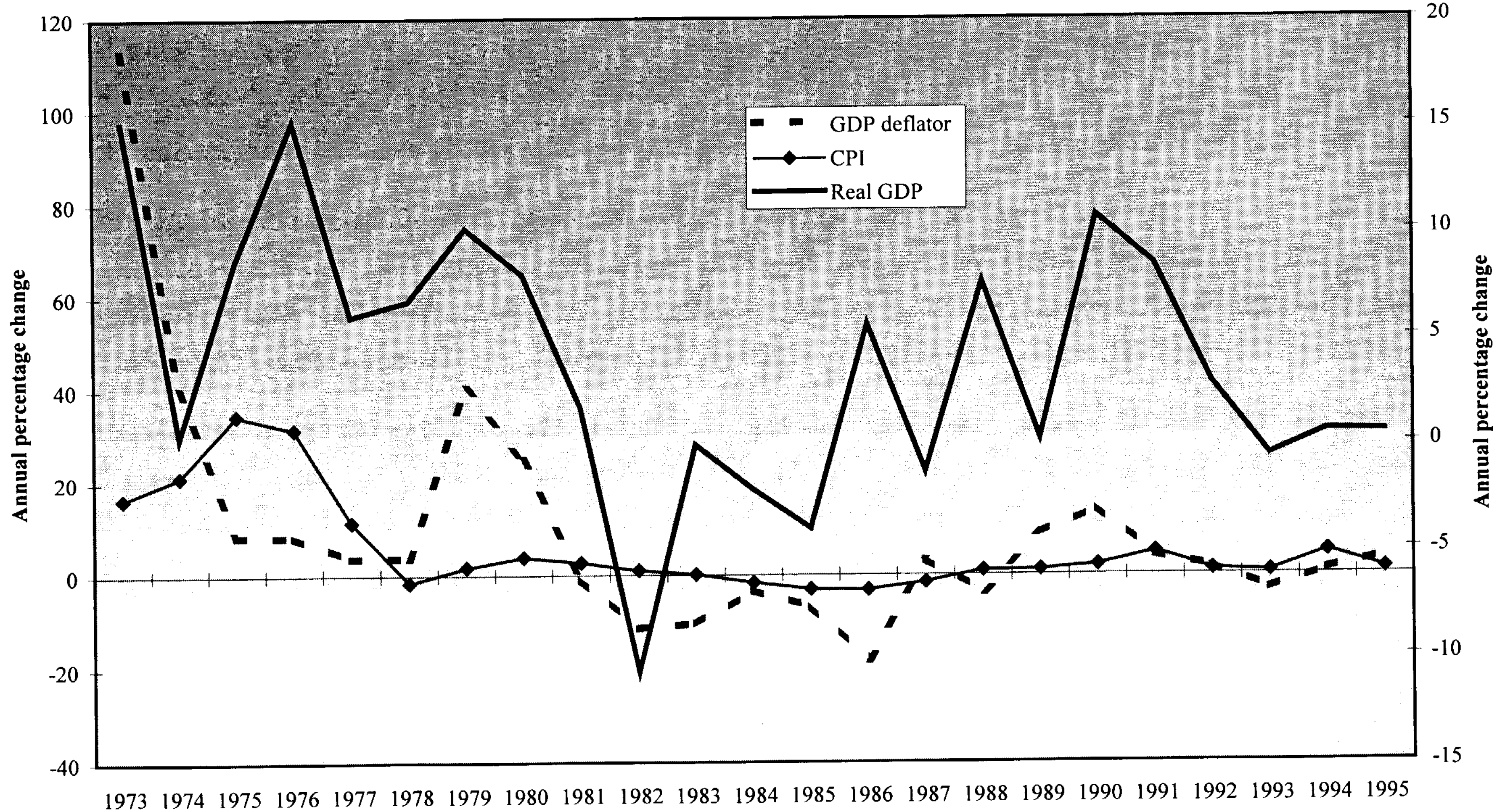
There is a close association between State oil revenues, fiscal expansion and inflation in the GCC countries.

During the 1970s and 1980s, oil earnings stimulated spending, stimulus which contributed to inflationary impulses in the GCC economies. However, beginning in the 1980s with the decline in the price of oil, major domestic fiscal impulses were successfully moderated through the conjunctive application of fiscal and monetary policies. Inflation has not been a major problem in the GCC countries since the early 1980s, not least because prices have been controlled and subsidies have been provided across the board for basic items in most of these countries.

Two oil price increases were associated with rapidly rising inflation in the GCC countries as oil earnings were used to finance major development projects. Large infrastructure and investment projects were undertaken as these countries sought to achieve their development objectives. However, their expansionary fiscal policies, along with their limited absorptive capacity and large financial surpluses, fueled inflation. Though basic consumer prices were controlled by the Government in most of the GCC countries, the impact of inflation was felt in other sectors. For example, rapid construction drove land values up in many GCC countries and contributed the rise in housing prices.

Saudi Arabia experienced the most rapid rise in inflation among the GCC countries after 1974. Government spending rose as the country undertook large investment projects, and the annual rate of inflation, as measured by the consumer price index, increased by 24.1 per cent on average during the period 1973-1975 (see table 5). The GDP deflator, which measures the rate of increase in the price of all goods and services in the economy, rose by even more; between 1973 and 1975, the GDP deflator increased by an average of around 54 per cent per annum. During the next four years (1976 to 1980), prices moderated and inflationary pressures eased owing to the decline in oil earnings and to the general recession in the world economy in the mid-1970s, which affected the demand for oil. The impact of the decline in oil prices and the world economic recession was reflected in a slowdown in the rate of growth of domestic prices: the CPI and the GDP deflator declined to 9.4 and 16.2 per cent per annum, respectively. Along with the slowdown, Saudi Arabia experienced a period of disinflation in the 1980s as output fell. As figure 10 indicates, the general price level in the economy continued to fall during the 1980s, with the CPI actually declining by an annual average of 0.14 per cent during the entire period from 1980 to 1990 (see annex table 1).

Figure 10. Saudi Arabia: price trends, 1973-1995



Note: Figure is based on annex table 1 of the present study.

TABLE 5. PRICE TRENDS IN SAUDI ARABIA, 1973-1990
(*Annual average percentage change*)

	1973-1975	1976-1980	1981-1985	1986-1990
CPI	24.1	9.4	-0.1	-0.1
GDP deflator	53.8	16.2	-6.6	0.8

Note: Table is based on annex table 1 of the present study.

Experiences with inflation among the GCC countries are characterized by more similarities than differences. The rise and fall in inflation came to be associated with changes in government spending through the mechanism of oil earnings not only in Saudi Arabia but in most of the other GCC countries as well. In Bahrain, Kuwait and Oman, oil price rises in the early 1970s and again between 1979 and 1981 triggered double-digit inflation. During the period 1976-1980 the consumer price level rose by an annual average of 12.4 per cent in Bahrain and 7.6 per cent in Kuwait; the increase in prices as measured by the GDP deflator was 11 per cent in Bahrain, 18.6 in Kuwait and 12.3 per cent in Oman (see table 6). In these countries, as in Saudi Arabia, comprehensive price controls were well established, preventing consumer prices from reflecting their true rise. An important component of subsidies in the GCC countries was that oil and other basic commodity price rises were not passed on to the consumer either after 1973 or in 1980.

TABLE 6. TRENDS IN INFLATION IN SELECTED GCC COUNTRIES, 1976-1990
(*Annual average percentage change*)

	1976-1980	1981-1985	1986-1990
Bahrain			
GDP deflator	11.0	5.1	-1.5
CPI	12.4	4.2	-0.3
Kuwait			
GDP deflator	18.6	1.6	-3.4
CPI	7.6	4.5	3.3
WPI	6.1	1.6	4.2
Oman			
GDP deflator	12.3	-3.3	1.1

Note: Table is based on annex tables 2, 3 and 4 of the present study.

Prices began to moderate in the first half of the 1980s as oil earnings declined, leading to a slowdown in output and disinflation in many of the GCC countries. By this time, the large investment projects were finished and basic development goals had been met. Lower revenue earnings necessitated a revisitation of public expenditure programmes. In the early 1980s, consumer and wholesale price levels in the GCC countries fell commensurately with the decline in oil prices.

Inflation in the GCC countries in the 1990s

Since the mid-1980s, inflation levels have remained very low and price stability has been maintained in the GCC countries, both as a group and individually, except during the Gulf crisis and war in 1991 (see table 7).

One basic characteristic of inflation in the countries of the ESCWA region is that the CPI does not reflect the true change in prices. In most of the countries of the region, subsidies on basic consumer items have held the prices of these commodities down. As a result, inflation has been repressed in most of the GCC countries.

TABLE 7. INFLATION IN SELECTED GCC COUNTRIES IN THE 1990S
(*Annual percentage change*)

	1991	1992	1993	1994	1995	1996
Bahrain						
CPI	0.8	-0.2	2.5	0.9	2.7	-0.2
GDP deflator	-3.1	-3.2	2.1	1.8	2.9	
Kuwait						
CPI	9.9	9.1	-0.5	0.4	2.5	2.7
WPI	3.8	18.6	0.5	1.8	-0.2	1.4
Qatar						
CPI	4.4	3.1	-0.8	1.3	3.0	7.4
Oman						..
GDP deflator	1.5	1.2	-5.5	-0.4	1.6	3.4
Saudi Arabia						
CPI	4.9	-0.1	1.0	0.6	4.9	1.1
WPI	3.0	1.4	0.6	1.8	7.2	-0.3

Note: Table is based on annex tables 1-5 of the present study.

Figures 11, 12 and 13 present the long-term trends in consumer prices for Kuwait and Oman from 1976 to 1996 and in Qatar from 1980 to 1996. As table 7 indicates, the change in consumer prices ranged from -0.2 to 2.7 per cent per annum in Bahrain, from -0.5 to 9.9 per cent in Kuwait, from -5.5 to 3.4 per cent in Oman, from -0.8 to 7.4 in Qatar, and from 0.6 to 4.9 per cent in Saudi Arabia. Since the State plays a large role in the GCC economies, aggregate demand is dependent on oil revenues. With oil prices low and domestic consumer prices controlled, all of the price indicators changed only very minimally during the period 1991-1996, with two exceptions: in Kuwait prices rose by 9.9 and 9.1 per cent in 1991 and 1992 respectively, following the Gulf war, and in Qatar, the price level rose by 7.4 per cent, partly in response to price liberalization and partly owing to a one-time (and long overdue) increase in wages.

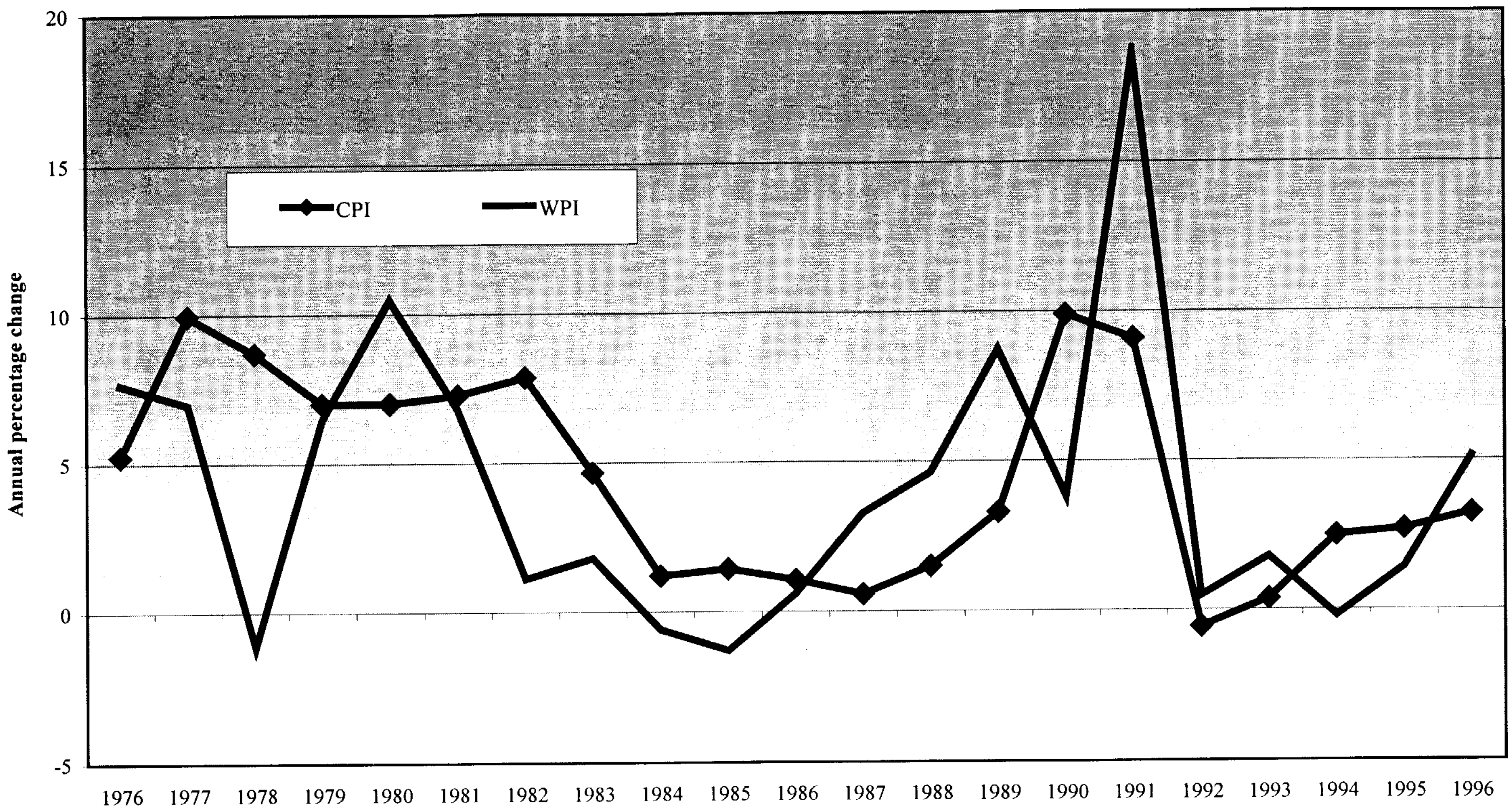
B. ECONOMIC POLICY AND INFLATION IN THE MORE DIVERSIFIED ECONOMIES

There have been wide differences in inflation levels between the capital-surplus oil-exporting GCC countries and the capital-deficit more diversified economies of the ESCWA region. Price hikes have been more of an issue in the latter; inflation has been high in all of the more diversified economies during certain periods in past decade and a half. The variations in their experiences with inflation, though, have been related to the differences in their economic policy responses to exogenous shocks.

1. *Egypt and Jordan: the success stories in price stabilization and inflation control*

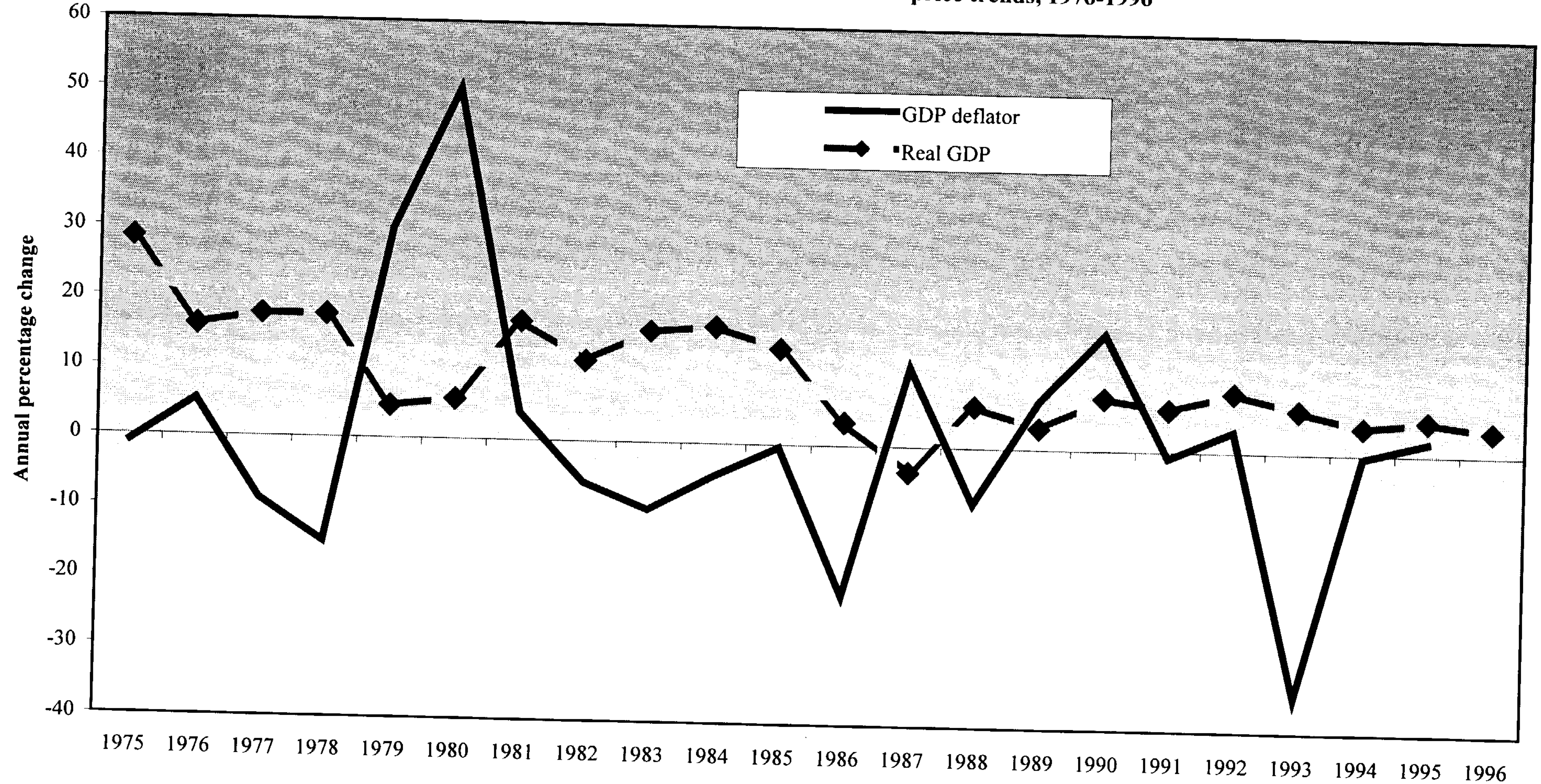
In Egypt, the economy grew rapidly during the early 1970s, thanks to high oil prices and revenues from the Suez Canal. A cornerstone of the State-sponsored economic growth strategy was an actively expansionary fiscal policy that continued into the 1980s. The State financed huge investment projects with a social welfare orientation and provided enormous consumer subsidies for food and other basic necessities. Inflation, as measured by the change in consumer prices, was less than 10 per cent before 1975 but rose to an annual average of around 13 to 14 per cent during the period 1976-1985 (see annex table 6). The GDP deflator shows a commensurate rise in prices. Between 1986 and 1990 inflation was even higher, averaging 20 per cent annually. The continuation of expansionary policies through the recessionary period of the 1980s, especially after 1986, placed a burden on growth and exacerbated the imbalances in the economy. Between 1989 and 1991, the Egyptian pound was devalued by more than 370 per cent and Egypt adopted an IMF-sponsored economic reform and structural adjustment programme. Figure 14 presents the trends in long-term inflation in Egypt during the period 1976-1997, as measured by the consumer price index and the wholesale price index (WPI).

Figure 11. Kuwait: price trends, 1976-1996



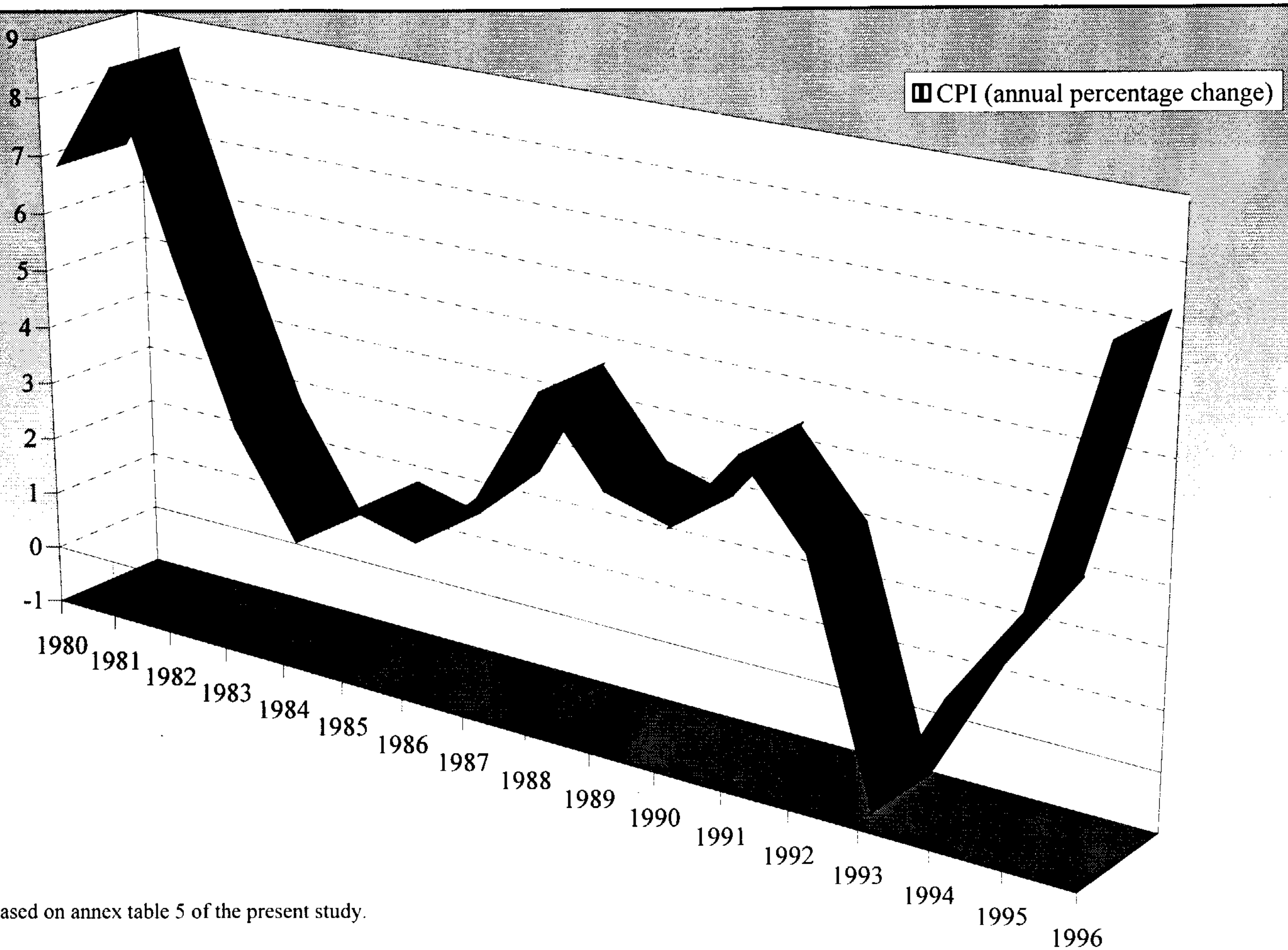
Note: Figure is based on annex table 3 of the present study.

Figure 12. Oman: real GDP and price trends, 1976-1996



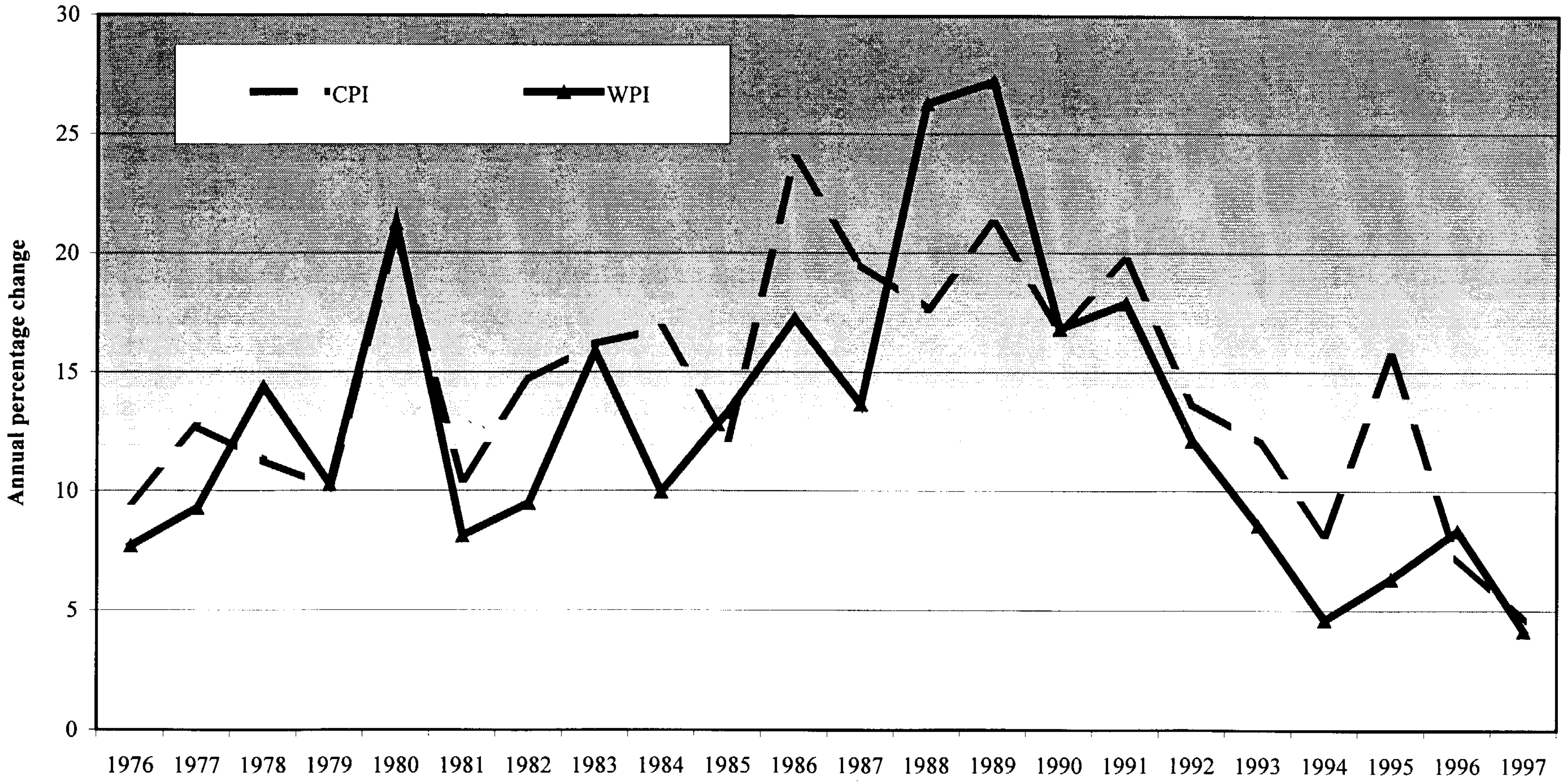
Note: Figure is based on annex table 4 of the present study.

Figure 13. Qatar: consumer price trends, 1980-1996



Note: Figure is based on annex table 5 of the present study.

Figure 14. Egypt: changes in prices, 1976-1997



Note: Figure is based on annex table 6 of the present study.

TABLE 8. INFLATION IN EGYPT AND JORDAN, 1976-1999
(*Annual average percentage change*)

	1976-1980	1981-1985	1986-1990	1991-1995	1996	1997	1998[a/]	1999[a/]
Egypt								
CPI	12.9	14.0	19.8	13.9	7.2	4.6	3.7	4.6
WPI	12.6	11.3	20.3	10.1	8.3	4.2	..	..
Jordan								
GDP deflator	10.8	7.1	7.2	3.9	5.0	..	..	..
CPI	11.6	5.4	9.7	4.3	6.5	3.1	2.5	2.9

Source: International Monetary Fund, *International Financial Statistics Yearbook, 1997* (Washington, D.C., 1997); and *International Financial Statistics, August 1998* (Washington, D.C., 1998).

a/ Data for 1998 and 1999 are Economist Intelligence Unit estimates.

The economic reform programme in Egypt has been a success in terms of reducing economic imbalances in the 1990s. Tighter monetary control policy along with the elimination of the budget deficit by 1993 reduced the rate of inflation to 7.2 per cent in 1996 and to 4.6 per cent in 1997. GDP growth, which was modest during the early reform years of 1991 to 1993, strengthened and rose to 5.1 per cent in 1996 and to 5.3 per cent in 1997. With the decline in oil prices, the delayed effect of the East Asian crisis on the global economy in general, and the appreciation of the Egyptian pound against the currencies of its export partners, consumer price inflation was expected to decline further, to 3.7 per cent, in 1998 before picking up again in 1999.

Though Jordan is not an oil-producing country, its economic policy response to the inflationary shocks of the 1970s was similar to that of Egypt. Inflation rose at an annual rate of 11.6 per cent during the period 1976-1980 as Jordan applied expansionary fiscal policies in order to achieve its development objectives. In the absence of adequate domestic savings, government expenditures were initially financed from remittances from Jordanians working in the Gulf States and grants from the GCC countries and later through borrowing, which built up the external debt. Jordan's external debt increased fivefold during the period 1979-1990, rising from US$ 1.5 billion to around US$ 7.8 billion (see annex table 7). However, Jordan's experience with inflation differed from that of Egypt in the sense that the impact of the expansionary fiscal policy on inflation was less in the former. Whereas Egypt suffered double-digit inflation for a protracted period, from 1977 to 1993, inflation declined in Jordan after reaching a peak of 14.4 per cent in 1979. Beginning in the early 1980s, the decline in oil prices adversely affected Jordan and further exacerbated the emerging structural disequilibria that were to plague its economy later. Jordan made an effort to contain both monetary growth and fiscal impulses as the country struggled with economic recession, and by the second half of the 1980s inflation had slowed down to around 5.4 per cent per annum.

During the 1980s the Jordanian economy experienced serious structural imbalances that had their roots in the country's narrow productive base and its dependence on external financial capital inflows, especially in the form of remittances from expatriate Jordanians and concessional assistance from the GCC countries. When these sources of external capital finance dried up, Jordan borrowed in the international capital markets to finance consumption expenditures that were, on average, higher than GDP. By the end of the 1980s, Jordan had a soaring external debt, high and unsustainable budget deficits, and little access to continued borrowing.

Jordan, like the other oil-importing developing countries, was adversely affected by the rise in world commodity prices in 1988 and by the Gulf war and its aftermath, but the latter had a particularly profound effect on the Kingdom. The virtual cessation of grants from the GCC countries after the Gulf war was coupled with an estimated loss of around US$ 4.4 billion as a result of the war.[12] At the same time, the

[12] ESCWA, "The impact of the Gulf crisis on the economies of Western Asia" (E/ESCWA/DPD/1992/11), p. 71.

return of more than 300,000 Jordanian expatriates from the Gulf States meant larger government outlays on food and other basic services. The repatriation of labour from the GCC countries cost the economy an estimated US$ 494 million in lost remittances in 1991 alone.[13] These adverse developments strained the capacity of the economy just as the Government was attempting to put a stabilization programme in place. Jordan devalued its currency by 49 per cent in 1989 and by 22 per cent in 1990. Inflation soared as a result, from 6.6 per cent in 1988 to a 25-year high of 25.7 per cent in 1989, as indicated in figure 15.

The Jordanian Government was successful in maintaining low inflation for the period 1981-1995; except during the years 1989-1991, when inflation rose to between 16 and 26 per cent as a result of the devaluation of the Jordanian dinar, increases in the price level have been maintained at single-digit rates through the combination of a tight monetary policy and curbs on fiscal spending. During the period 1992-1997 inflation averaged 3.7 per cent. In 1992, following the signing of the peace accord with Israel, inflation was as low as 2.3 per cent, reflecting robust economic growth and expectations of peace dividends (see annex table 7). The economy slowed down in 1996, though this did not translate into a decline in wages and prices; the latter actually increased. The rate of inflation rose to 6.5 per cent, the highest it had been since 1991. In the first seven months of 1998, the annualized rate of inflation was around 5.5 per cent.

2. *Efforts at adjustment: the cases of the Syrian Arab Republic and Yemen*

Lessons learned from experience worldwide indicate that many Governments would rather tolerate higher levels of inflation to maintain economic growth than adopt tighter monetary policies that would hurt investment and growth. The experiences of the Syrian Arab Republic and Yemen in the 1990s seem to reflect this.

The inflation experience of the Syrian Arab Republic was similar to that of Egypt during the 1970s. Oil revenues spurred consumption and investment as socialist development goals were pursued. GDP grew rapidly, averaging 6 per cent after the initial oil price rise. However, backed by a fixed exchange rate, the fiscal policy regime remained highly expansionary, even after the decline in oil prices. By the late 1970s, as the world moved into an expansionary phase and oil prices increased, inflation rose to double digits in the Syrian Arab Republic.

During the 1980s, as the evolving fiscal imbalances reinforced structural weaknesses in the economy, the Syrian experience became a classic example of how large fiscal deficits could lead to high inflation. Figure 16 vividly depicts the negative relationship between economic growth and inflation in the Syrian Arab Republic. During the period 1981-1985 the annual average GDP growth rate dropped to half of what it had been in the late 1970s and by another 50 per cent during the next five years. Inflation, as measured by the CPI, averaged 13 per cent per annum during the period 1981-1985 (see table 9). According to the GDP deflator, which measures the rise in prices of all goods and services in the economy, prices rose by a much lower annual average rate of 7 per cent. However, this aggregate masks the high and rising inflation levels during some years, especially in the mid-1980s. In 1987 inflation in the Syrian Arab Republic peaked at 60 per cent (see table 8), with consumer prices increasing by an average of 32.2 per cent per annum during the period 1986-1990. In 1988, the Syrian Arab Republic devalued its currency by 170 per cent. The impact on the economy was less than expected; output and growth suffered, with GDP declining by 9 per cent (see figure 16).

In the 1990s the Syrian Arab Republic made a concerted effort to reduce inflation. The annual average increase in consumer prices and the GDP deflator declined to 10.8 and 9.2 per cent, respectively, during the period 1991-1995. By 1997 consumer price increases had declined to an all-time low of 7 per cent (see table 9).

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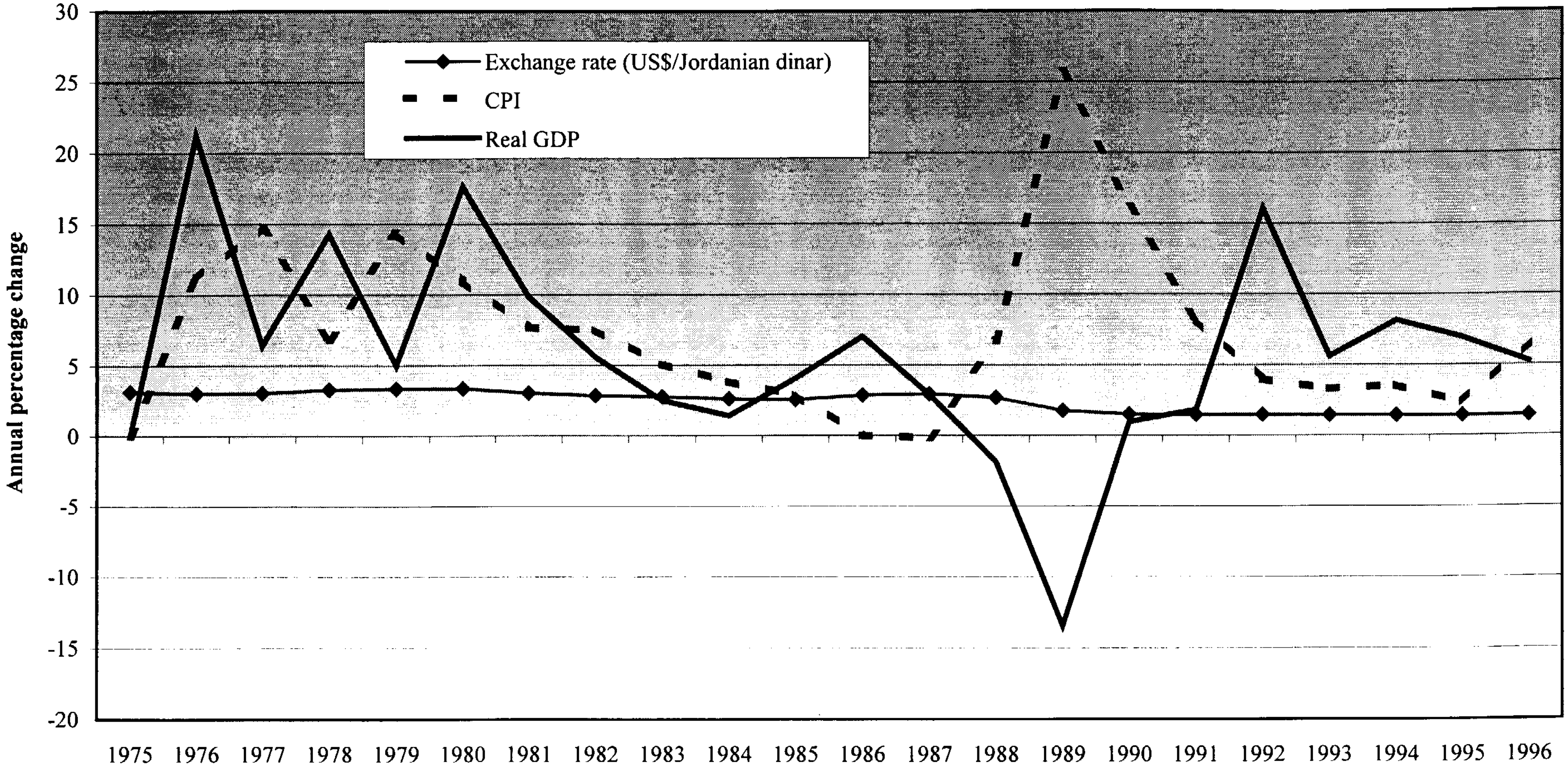
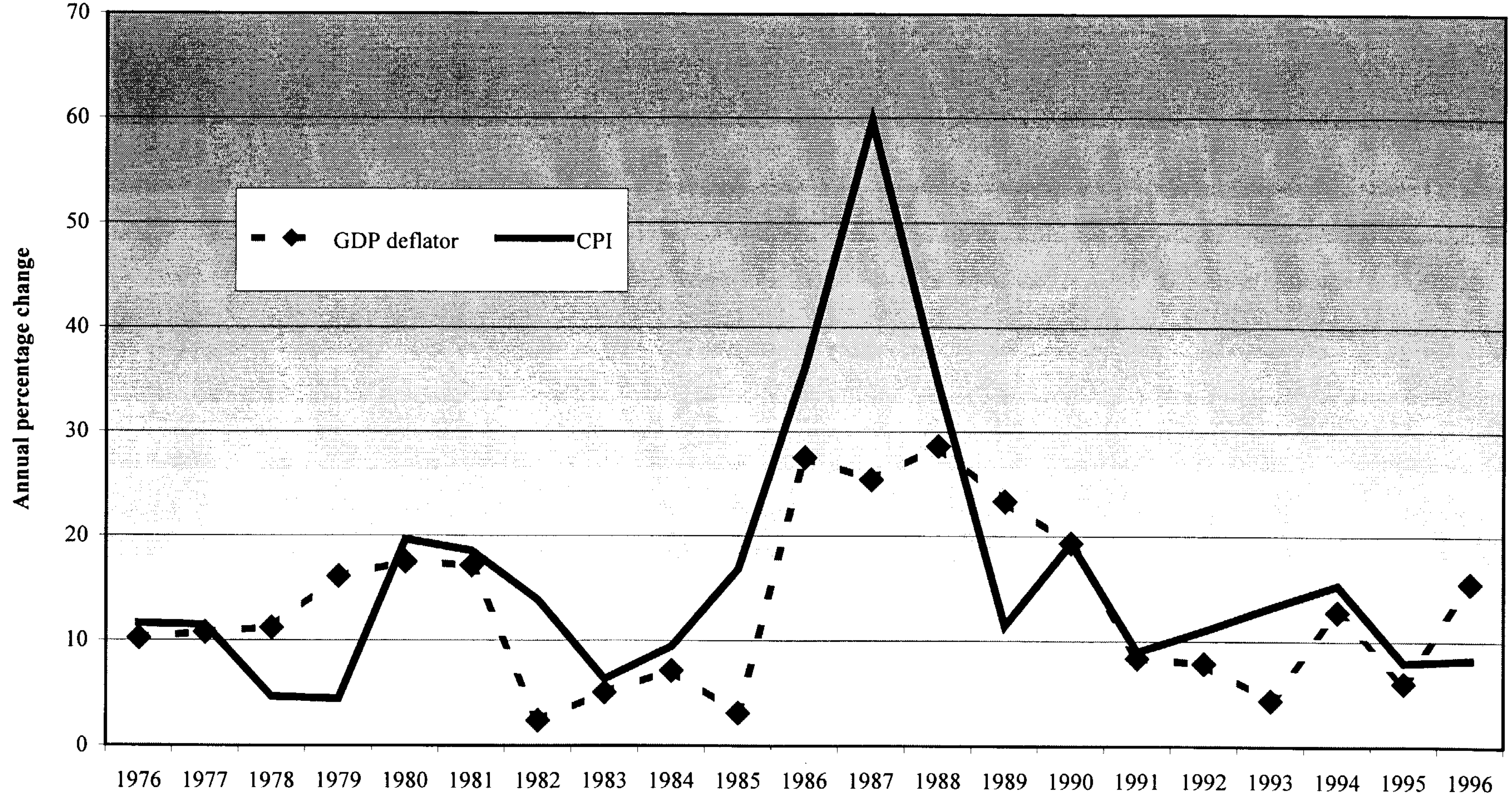
[13] Ibid.

Figure 15. Jordan: real GDP growth, inflation and the exchange rate, 1975-1996



Note: Figure is based on annex table 7 of the present study.

Figure 16. Syrian Arab Republic: price trends, 1976-1996



Note: Figure is based on annex table 8 of the present study.

TABLE 9. INFLATION TRENDS IN THE SYRIAN ARAB REPUBLIC AND YEMEN, 1976-1998
(*Annual average percentage change*)

	1976-1980	1981-1985	1986-1990	1991-1995	1996	1997	1998[a]
Syrian Arab Republic							
CPI	10.4	13.0	32.2	10.8	8.3	7.0	7.0
GDP deflator	13.2	7.0	24.8	9.2	15.5	..	..
Yemen							
CPI	..	..	..	46.6	28.7	8.8	14.0
GDP deflator	..	..	..	26.2	38.5	7.5	..

Source: Data for the CPI for 1997 and 1998 are from the *Economic Intelligence Unit, Country Report* (Syrian Arab Republic and Yemen, third quarter 1998).

Note: Table is based on annex tables 8 and 9 of the present study.

a/ Economist Intelligence Unit forecasts.

The differences in ideologies in Yemen Arab Republic and the People's Democratic Republic of Yemen were reflected in their inflation experiences during the 1980s. Socialist policies and State-sponsored subsidies kept inflation low in the People's Democratic Republic of Yemen; rates averaged around 3 per cent per annum between 1985 and 1989. With its mixed economy and relatively free prices, the Yemen Arab Republic experienced much higher inflation levels of between 10 and 17 per cent per year during the same period.

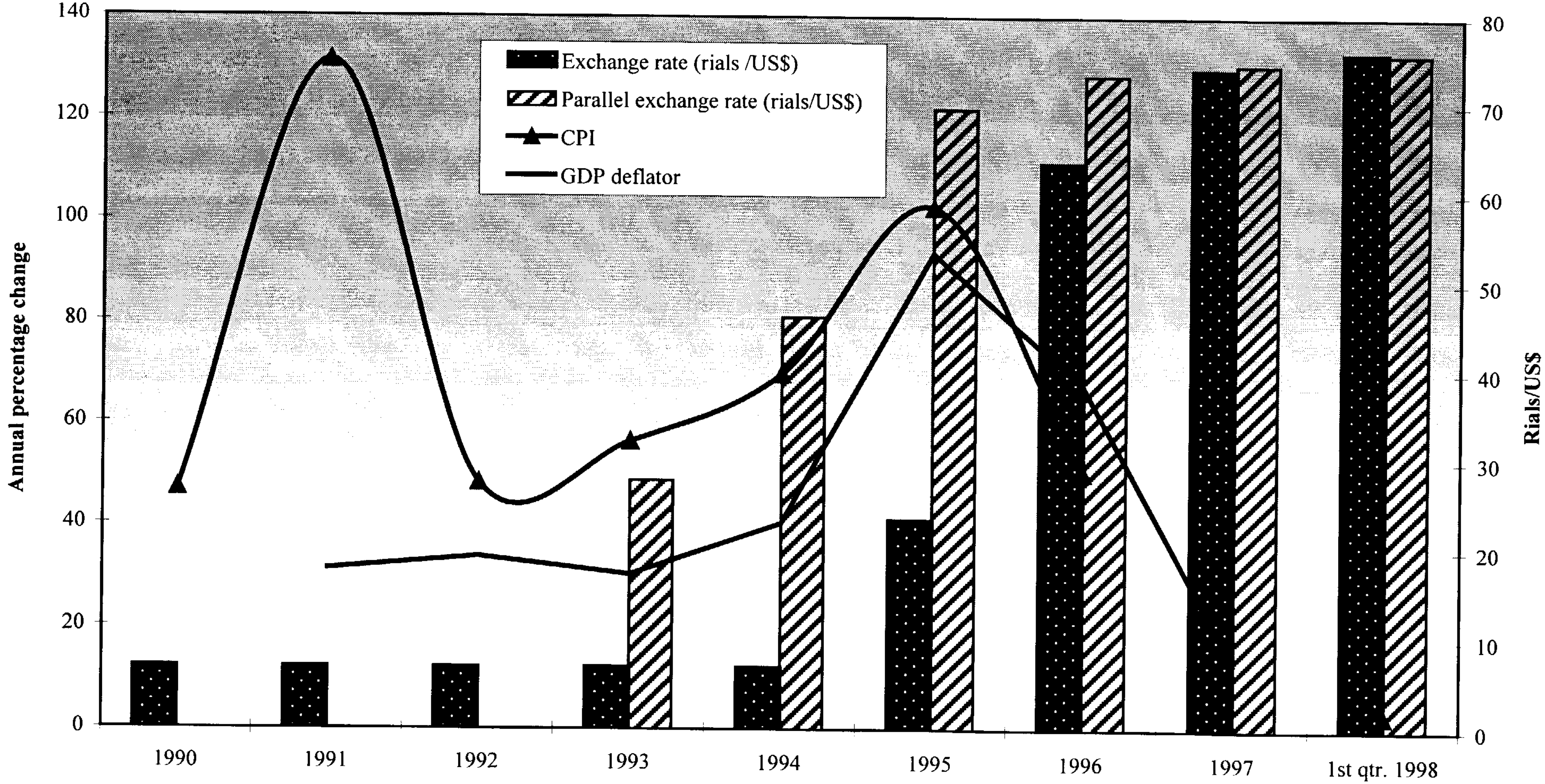
The unification of the two countries in May 1990 was followed almost immediately by the Gulf crisis and war and concomitant economic difficulties as financial assistance from the GCC countries was discontinued and 800,000 labourers returned from the Gulf States. These difficulties were compounded by the civil war in 1994 and resulted in the stagnation of GDP growth. Yemen adopted an expansionary fiscal policy during the period 1991-1995 in order to finance extraordinary government expenditures, which contributed to inflationary pressures. The average inflation rate rose to a high 46.6 per cent per annum during the period 1991-1995. The GDP deflator indicates that the prices of goods and services increased by a much lower rate of 26.2 per cent per annum during this period (see table 9 and annex table 9). The fixed exchange rate came under strong pressure as the parallel market rate rose to over 600 per cent of the official rate. In late 1995 Yemen devalued its currency by over 300 per cent and the prices of a few basic commodities were liberalized. The Government adopted an IMF-sponsored structural adjustment programme in 1995 in order to rehabilitate the Yemeni economy. A cornerstone of the reform programme since 1995 has been to decontrol consumer and producer prices and the exchange rate.

Yemen has made substantial progress in its efforts to achieve price stability over the past three years. Figure 17 illustrates price and exchange rate trends during the present decade. Inflation has declined from CPI and GDP deflator growth rates of between 53 and 75 per cent to single-digit levels in 1997. Since the liberalization of the exchange rate in January 1996, the differential between the official rate and the market rates has disappeared.

3. *Instances of hyperinflation in the ESCWA region: the cases of Lebanon and Iraq*

A sudden rise in inflation can be the result not only of commodity price increases but also of an exogenous politico-military shock in the form of a war or a conflict. Over the past 25 years, certain countries in the ESCWA region have experienced this phenomenon. The protracted civil war in Lebanon was the prime determinant of the period of hyperinflation in that country. Similarly, the Gulf war constituted a major exogenous shock that disturbed the regional political and economic equilibrium and contributed to inflation in the ESCWA region as a whole and in particular countries, most notably Iraq, which has endured hyperinflation at levels never before experienced in the region (see table 10).

Figure 17. Annual changes in inflation indicators in Yemen, 1990-1998



Note: Figure is based on annex table 9 of the present study.

TABLE 10. INSTANCES OF HYPERINFLATION IN LEBANON AND IRAQ, 1976-1998
(*Annual average percentage change*)

	1976-1980	1981-1985	1986-1990	1991-1995	1996	1997	1998 a/	1999 b/
Lebanon	18.4	26.0	175.7	66.8	8.9	5.2	4.8	4.5
Iraq	9.3 c/	11.5	18.9	282.0	225.0	200.0	140.0	75.0

Source: Data for Lebanon are from the International Monetary Fund, *Economic Dislocation and Recovery in Lebanon*, (Washington, D.C., February 1995), p. 4; data for Iraq are from ESCWA, *Statistical Abstract of the ESCWA Region* (E/ESCWA/STAT/1997/8) (Sales No. 97. II. L. 10); and data for the period 1996-1999 are from the Economic Intelligence Unit, *Country Report* (third quarter 1998, and for Lebanon, fourth quarter 1998).

Note: Figures are taken from annex tables 10 and 11 of the present study.

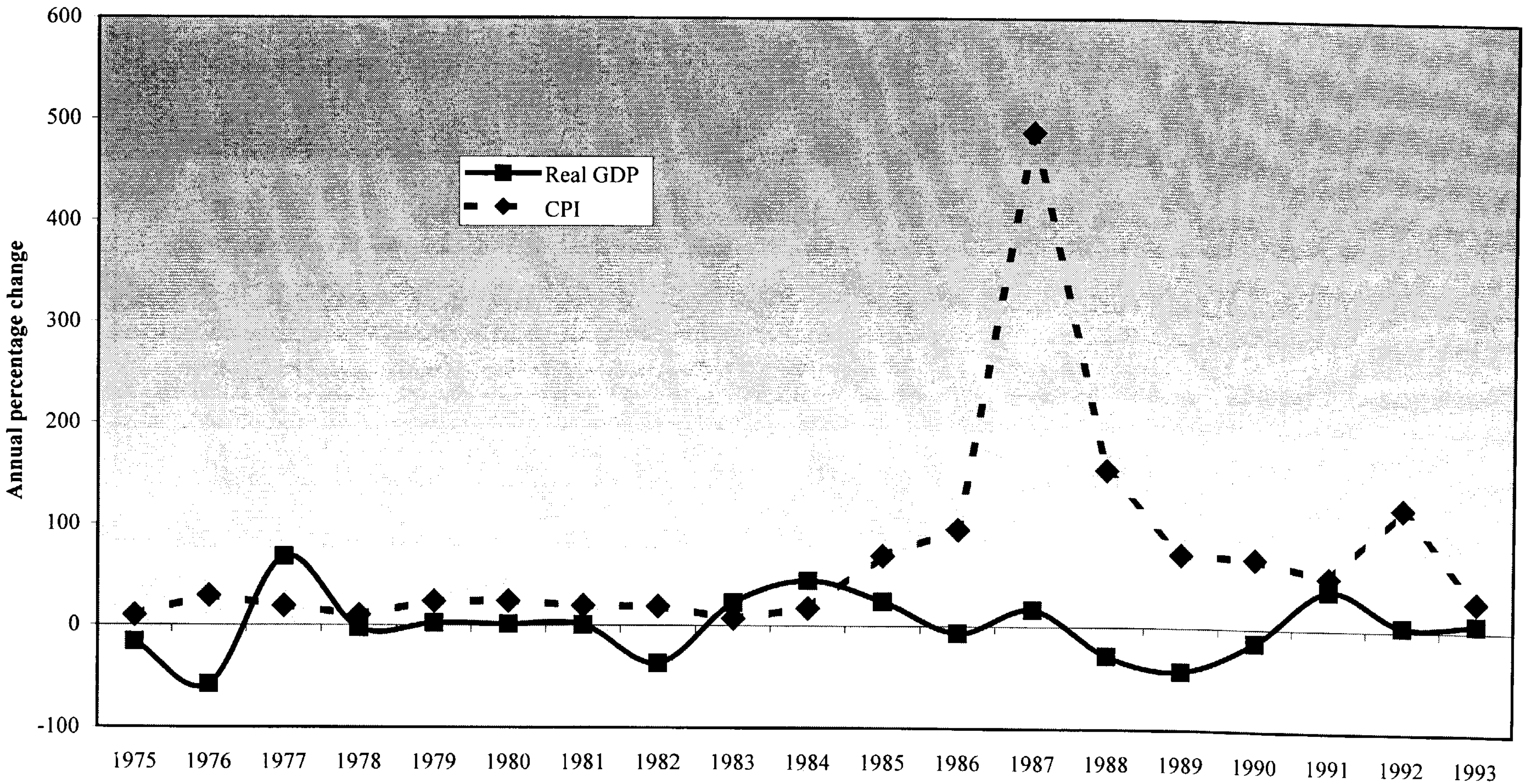
a/ Preliminary estimates.
b/ Projection.
c/ 1976-1979.

Prior to the civil unrest in the 1970s, Lebanon enjoyed a strong macroeconomic position. The economy registered high rates of growth and inflation averaged a moderate 7 per cent in the three years prior to 1975 (see annex table 10). The outbreak of hostilities in 1975 led to the acceleration of inflation as Lebanon's budgetary position deteriorated and credit creation increased. The rate of inflation rose from 10 per cent in 1975 to 24 per cent in 1980; between 1976 to 1980 the average inflation rate was more than 18 per cent per annum (see table 10), and the Lebanese pound depreciated by around 56 per cent against the US dollar (see annex table 10).

Inflation spiraled further upward during the second half of the 1980s as the conflict worsened. The uncertainties created by the civil war heightened inflationary expectations, and Lebanon experienced hyperinflation; as figure 18 shows, inflation rates of 487 and 154 per cent were recorded for 1987 and 1988. The annual increase in prices averaged a high 175.7 per cent during the period 1986-1990. Associated with the conflict was the weakening of Lebanon's external position and the dollarization of its economy as financial capital moved into foreign currency. After the Taif Agreement was signed in Saudi Arabia in 1989 the Government sought to stabilize the exchange rate, reduce budgetary deficits and control inflation, which came down to 51 per cent in 1991 as fiscal consolidation took hold. However, in 1992, a rise in the wage bill once again heightened expectations of fiscal expansionary impulses, put pressure on the exchange rate and fuelled inflation, which rose to around 120 per cent. The country's currency depreciated from 826 Lebanese pounds to 1 US dollar (LL 826/US$ 1) in 1991 to LL 1,712/US$ 1 in 1992 alone. Since 1992, however, Lebanon has attempted to curtail the widening of budget deficit, reduce credit creation, and provide a stable macroeconomic environment. With the return of confidence in Lebanon's economy, especially following the end of the civil conflict, the Lebanese pound appreciated from LL 1,741/US$ 1 in 1993 to LL 1,550/US$ 1 in 1998. Inflation has fallen to single digits and in 1997 was at its lowest level in more than two and a half decades; at 5.2 per cent, it was almost down to pre-war levels, and a further decline was expected in 1998 (see table 10).

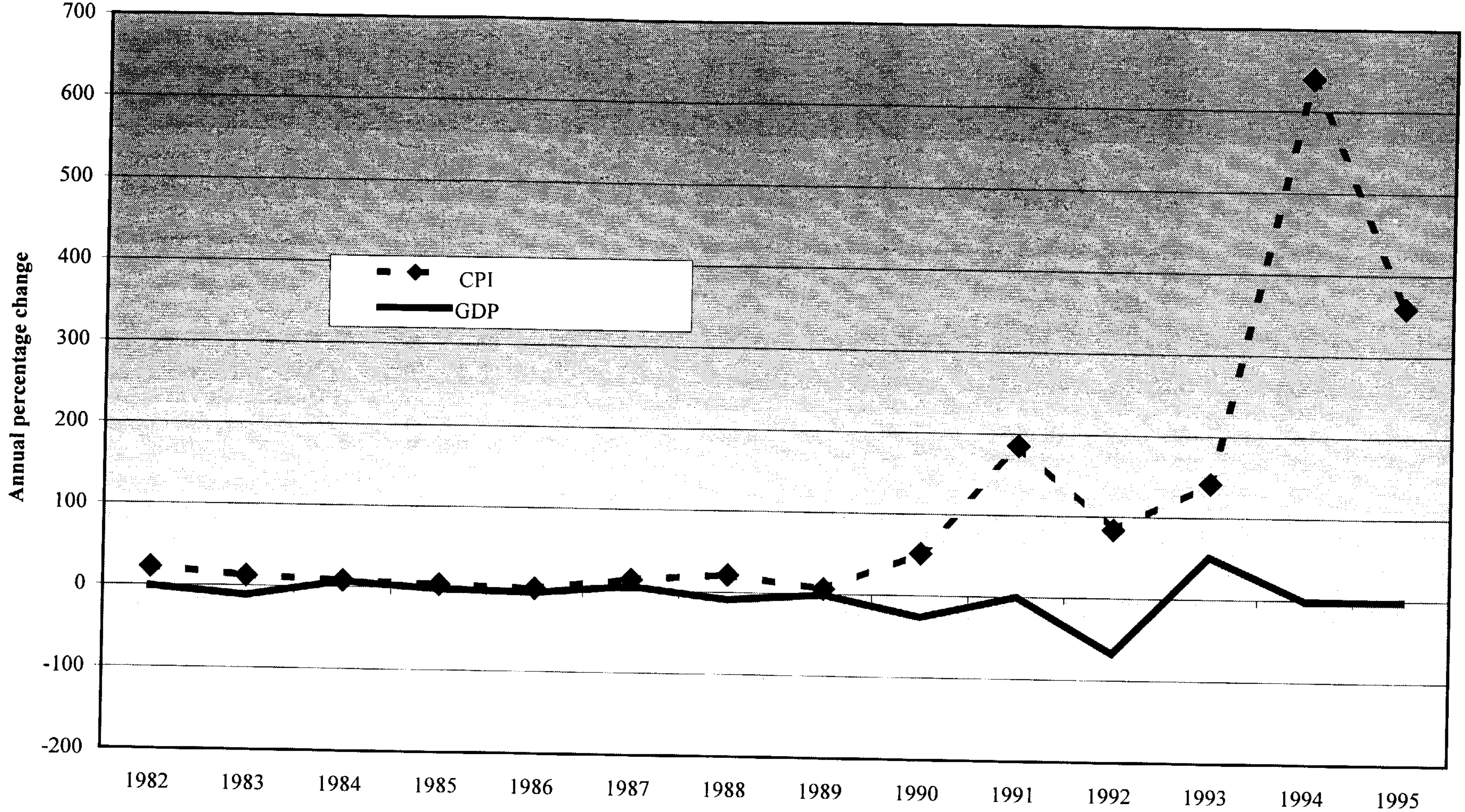
Until 1970, Iraq's experience was similar to that of the GCC countries in that inflation levels were kept low through the country's social welfare approach to economic development, the application of price controls and the provision of subsidies. The impact of the first oil price shock in 1974 was also similar in Iraq and the GCC countries. Oil revenues increased sixfold in Iraq that year, and government consumption and expenditure more than doubled. The growth in GDP was associated with an upward trend in consumer prices, which rose by relatively modest 7.8 per cent in 1974. The second oil price shock in 1980 and the Iran-Iraq war from 1981 to 1988 were two exogenous shocks that pushed inflation levels up further (see figure 19). Inflation, as measured by the change in consumer prices, averaged 11.5 per cent per year from 1981 to 1985 and 18.9 per cent per year during the period 1986 to 1990 (see table 10). The Gulf war in 1991 was the starting point for hyperinflation in Iraq; during that year, consumer prices increased by 185.4 per cent. Since then, the rapid and severe depreciation of the Iraqi dinar (owing to the United Nations sanctions, which have dealt a devastating blow to the economy) has led to an average annual increase in prices of between 200 and 300 per cent. Inflation peaked at 639 per cent in 1994 before declining to 360 per cent in 1995 (see annex table 11). Since 1996 the oil-for-food deal has moderated inflationary expectations and has

Figure 18. Lebanon: real GDP growth and inflation, 1975-1993



Note: Figure is based on annex table 10 of the present study.

Figure 19. Iraq: real GDP growth rate and inflation, 1981-1995



Note: Figure is based on annex table 11 of the present study.

exerted a slight downward pull on consumer prices. In 1997 consumer prices were rising at an average rate of 200 per cent per annum, with expectations of a smaller increase of 140 per cent in 1998 as the second phase of the oil-for- food deal commenced. Inflation during the last few years has been almost completely driven by money creation in Iraq and is therefore expected to continue to be high as long as the sanctions are in place, and even after they are lifted, as large fiscal expansion will be needed to rebuild the economy.

4. *The West Bank and Gaza Strip: a case of "imported" inflation*

The experience of the West Bank and Gaza Strip is unique in that its inflation is "imported" from Israel and tends to follow the same patterns and exist at roughly the same levels as inflation in that country; this is a direct consequence of the territories' overwhelming trade, economic and political dependence on Israel. Another factor impeding any control of prices in the economy is that the West Bank and Gaza Strip do not have an independent central bank or their own currency. Their cyclical inflation trends closely follow those of Israel (see figure 20). In the last few years inflation has declined to single-digit levels, partly because Israeli inflation has declined and partly because the economy in the West Bank and Gaza Strip has been undergoing a period of disinflation since 1994.

Issues relating to inflation in the territories in the 1990s have their roots in the patterns of development under Israeli occupation over the past 25 years.

A unique characteristic of the economy of the West Bank and Gaza Strip, and one reason for the territories' economic dependence on Israel, has been the restriction of the flow of goods abroad. As a result of the customs union with Israel in 1967 and the fourfold increase in tariffs on goods from neighbouring Arab countries that came with the Arab boycott of Israel, the Palestinians in these areas traded almost exclusively with Israel. For a long time, investment and production opportunities were restricted to the West Bank and Gaza Strip. The situation has been different for labour, however, as the Palestinians from the territories have been allowed to work in Israel and abroad. After the oil price rise in the 1970s there was a surge in the outflow of labour to the Gulf countries, and Palestinian remittances contributed significantly to the high rates of savings, particularly during the 1980s. Propelled by the high savings rates, GDP growth in the West Bank and Gaza Strip averaged around 8.5 per cent during the period 1970-1979. Part of this growth was linked to the rapid increase in the number of Palestinian labourers working in Israel; the figure rose from close to zero in 1970 to 7,000 in 1979 and to 110,000 in 1987, eventually accounting for 35 per cent of the labour force in the West Bank and 45 per cent of the labour force in the Gaza Strip; a similar proportion of Palestinian workers migrated abroad.[14] In the early 1980s, however, demand for outside labour in both Israel and the GCC countries began to taper off.

The result of this asymmetric pattern of development deriving from the Palestinians' economic dependence on Israel was that the economy of the West Bank and Gaza Strip became vulnerable to:

(a) Changes in the Israeli economy, including inflation increases and decreases;

(b) Politically motivated events, including Israel's closures of its borders with the West Bank and Gaza Strip;

(c) External commodity shocks.

The hyperinflation Israel underwent during the 1980s was imported into the West Bank and Gaza Strip; both the Israelis and the Palestinians saw triple-digit inflation levels in the early 1980s (see figure 20). In 1984, when inflation in Israel peaked at 374 per cent, inflation rose to 374 per cent in the Gaza Strip and 361 per cent in the West Bank. In 1985 Israel undertook an economic stabilization programme that included strong anti-inflationary policies. As a result of this programme, inflation declined in Israel and in the West Bank and Gaza Strip. In the span of two years inflation fell to between 11 and 20 per cent in these areas (see figure 20).

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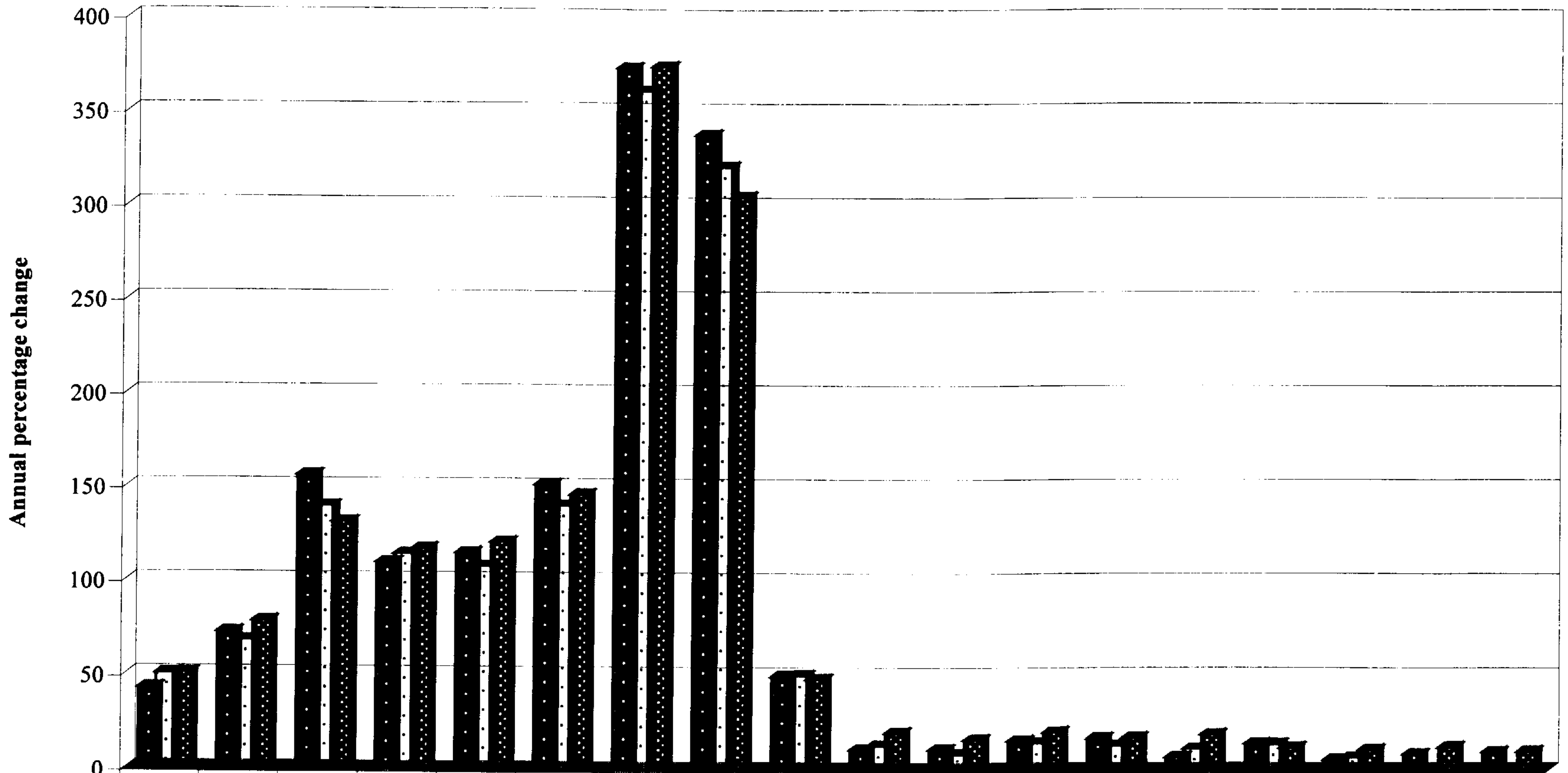
[14] Ishac Diwan and Michael Walton, *Palestine: From Dependent to Autonomous Growth*, Economic Research Forum Working Paper No. 9409 (Cairo, 1994), p. 4.

Figure 20. Inflation in the West Bank and Gaza Strip imported from Israel, 1978-1995



	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Gaza Strip	42.8	72.4	156	109.5	114.6	151.2	373	337.6	49.6	11	11.1	15.7	16.9	7	14.1	5.7	8.6	9.8
West Bank	50.4	68.1	139.4	114	107.4	139.8	360.7	320.6	50	13.1	8.7	14.5	13	11.5	13.9	6.8	..	..
Israel	50.6	78.3	131	116.8	120.3	145.7	373.8	304.6	48.1	19.9	16.3	20.2	17.2	19	12	11	12.3	10.1

In the past few years inflation has moderated in the West Bank and Gaza Strip to around 6 or 7 per cent per annum. The slowdown in the peace process and political exigencies in the form of frequent border closures by Israel, especially in 1996, have adversely affected economic growth in the territories, and slower growth has in turn affected aggregate demand and restrained prices. The resulting downward pressure on wages caused wages to decline in the West Bank and Gaza Strip in 1996 and 1997. This recessionary economic climate has moderated the hitherto high annual inflation levels. Inflation, which averaged around 11.9 per cent per year between 1993 and 1995, declined to around 7.7 per cent in 1996 in response to the disinflationary trend in Israel (the main source of imports for the West Bank and Gaza Strip) and because of the decline in the demand for goods and services as a result of falling per capita incomes in the territories.

There are differences between the West Bank and Gaza Strip in terms of changes in price levels. As table 11 indicates, the rate of inflation in the Gaza Strip was higher than that recorded for the West Bank and for the two areas combined, in 1997 and the first half of 1998. Inflation in the Gaza Strip was 6.92 per cent, compared with 4.84 in the West Bank and 6.10 per cent in the two areas together in June 1998. Part of the difference derives from the fact that while both areas are dependent on Israeli inputs and goods, the larger West Bank economy is able to produce more in terms of domestic goods and services, which mitigates price rises. During closures the West Bank economy is less affected than that of the Gaza Strip since Israeli vehicles can still access the area without too many security problems. West Bank consumers have more access to outside suppliers, which leads to greater competition and exerts a downward pull on prices.

TABLE 11. INFLATION IN THE WEST BANK AND GAZA STRIP, 1997-1998
(*Annual average percentage change*)

	1996	1997	June 1998
West Bank and Gaza Strip	7.7	6.1	4.1
West Bank	..	4.8	3.8
Gaza Strip	..	6.9	5.8

Source: The 1996 figure for West Bank and Gaza Strip is from ESCWA, *Statistical Abstract of the ESCWA Region*, seventeenth issue (E/ESCWA/STAT/1997/8) (Sales No. 97. II. L. 10); data for 1997 and 1998 are from the United Nations, Office of the Special Coordinator in the Occupied Territories, "Economic and social conditions in the West Bank and Gaza Strip, spring 1998" (Gaza, 15 April 1998); and data for June 1998 are from the Palestinian Central Bureau of Statistics, "Consumer price index, revised series (June 1998), p. 19.

Box 3. Recession in the West Bank and Gaza Strip

Since 1993, the economy in the West Bank and Gaza Strip has been more or less in recession. One reason for this is the frequent Israeli closure of the borders between the West Bank and Gaza Strip, within the West Bank, and between the areas administered by the Palestinian Authority and Israel. This has essentially prevented the flow of goods and services between these areas. The greatest impact of such closures is on the labour market, and the effect is immediate. An estimated 38,000 to 40,000 Palestinians cross the Israeli border daily to work in Israel. Frequent and prolonged closures, especially in 1996, translated into lower wages. Coupled with the stalling of the peace process, lower foreign investment and fewer export opportunities, this has led to lower inflation. In the West Bank and Gaza Strip real private investment fell from 24 per cent of GDP during the period 1988-1992 to under 14 per cent of GDP between 1992 and 1995; at the same time, exports as a percentage of GDP fell from 13 per cent to less than 10 per cent.

The West Bank and Gaza Strip are undergoing a period of disinflation at present. Most of the usual monetary policy instruments are not available to the Palestinian Monetary Authority (PMA). The Palestinian Authority does not have a currency, government debt, or an inter-bank market, so the PMA has no money supply to influence aggregate demand and inflation levels. Fiscal policy therefore remains the main instrument of macroeconomic management, including the management of inflation. Trade relations remain highly oriented in favour of Israel. In 1996 the West Bank and Gaza Strip had a trade deficit of US$ 1.6 billion, US$ 1.4 billion of which represented the deficit with Israel.[a]

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a/ International Monetary Fund, *The Economy of the West Bank and Gaza Strip: Recent Experience, Prospects, and Challenges to Private Sector Development* (Washington, D.C., 1998), p. 51.

C. CONCLUSION

Inflation continues to be kept low in the GCC countries through price controls and subsidies. The experiences of the more diversified economies with inflation indicates varied performance in the past two and a half decades. Jordan has managed the incidence of inflation well. In both Egypt and the Syrian Arab Republic inflation was much higher and continued for a more protracted period (until the early 1990s) before declining. In Lebanon the determinants of the episodes of high inflation during the 1980s were different and were related more to the exigencies of the civil war. In the West Bank and Gaza Strip, under occupation, inflation has been primarily a function of Israeli inflation levels.

Since 1995 inflation has slowed down in almost all ESCWA member countries. In Egypt and Jordan the adjustment programmes adopted in early 1990s have been a success and inflation continues to be low. The Syrian Arab Republic has undertaken a programme of indigenous economic reforms, and inflation has come down substantially in comparison with the levels recorded in the late 1980s.

Yemen is continuing with an adjustment programme aimed at restoring macroeconomic stability. In the three years since the programme was adopted, Yemen has made substantial progress in curtailing high inflation. In the West Bank and Gaza Strip inflation has come down primarily owing to the decline in Israeli inflation but also owing to a slowdown in the economy.

Iraq remained the only ESCWA member country with very high inflation levels in 1998, a direct result of the continuing economic sanctions.

III. CAUSES OF INFLATION

The causes of inflation are numerous and complex. One school of thought holds that inflation is a monetary phenomenon. A study on the causes of inflation in developed and developing countries found that for developing countries the determinants of inflation, in ascending order of importance, were growth in the money supply and changes in the nominal exchange rate followed by supply shocks (including non-oil commodity price increases).[15] It is widely recognized that sustained inflation is closely connected with sustained increases in the money supply. In almost all cases, money supply increases contribute to inflationary pressures.

This chapter explores the determinants of inflation in the ESCWA member countries. Focusing on selected monetary and fiscal policy variables, it shows that inflationary episodes, while triggered by supply shocks, have essentially been an economic policy management issue in much of the ESCWA region. Only in Lebanon, Iraq and the West Bank and Gaza Strip have the authorities had little leverage in reducing inflation, which has primarily been caused by exogenous shocks.

A. MONEY GROWTH AND INFLATION

A rapid increase in the money supply is one of the major causes of inflation. There exists a close relationship between long-term growth in the money supply and long-term inflation. A study on the determinants of long-term inflation in 53 developed and developing countries during the period 1960-1992 found that increases in money supply growth accounted for a large part of the increases in inflation.[16] Developing countries were particularly vulnerable to this phenomenon during the 1970s and 1980s.

In the ESCWA region growth in the money supply was the prime determinant of inflation in the past. Large government budgetary expenditures were traditionally financed through money creation. Table 12, which shows the money supply trends in most of the GCC countries during the period 1976-1996, indicates that the money supply growth rate in all these countries rose after the oil price shocks. Because of the low absorptive capacity of the GCC economies, this led to inflationary pressures in the short run. In Saudi Arabia the rate of increase in the money supply in 1975 alone was a very high 93.5 per cent. The same was true in most of the other GCC countries as Governments undertook higher consumption and investment expenditures following the surge in oil earnings. Money growth during the period 1976-1980 continued at a rapid pace: the money supply increased at an average annual rate of 35.3 per cent in Saudi Arabia, 21.6 per cent in Bahrain, 20.6 per cent in Kuwait, 19.8 per cent in Qatar and 17.5 per cent in Oman.

Growth in the money supply became related to oil revenues through the mechanism of government expenditures. As figure 21 indicates, money supply growth and net credit slowed down considerably in Saudi Arabia during the recessionary period of the 1980s; the growth in the money supply actually declined in three out of eight years during the period 1983-1990. In Kuwait, as figure 22 indicates, money supply growth peaked in 1982 after the second oil price increase.

During the 1990s the GCC countries have tightened their monetary policies and controlled the rate of money growth. From 1991 to 1995, average annual growth in the money supply slowed down to 4.3 per cent in Saudi Arabia and 2.1 per cent in Bahrain. In Qatar monetary policies were tightened starting in 1986; figure 23 indicates the sharp reduction in the rate of growth of money supply, as one indicator, which declined at an annual average rate of 1.4 per cent during 1991 to 1995.

Money growth was the prime determinant of inflation in the GCC countries during the period 1973-1996. To test the relationship between the changes in inflation and changes in the money supply, a model was constructed for Saudi Arabia, with changes in CPI as the dependent variable and the rate of growth of the money supply (M1), changes in the world prices of oil, changes in the world prices of non-oil

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[15] International Monetary Fund, *World Economic Outlook, October 1996* (Washington, D.C., 1996), p. 114.

[16] Ibid., pp. 114-115.

TABLE 12. MONEY SUPPLY IN SELECTED GCC COUNTRIES, 1976-1996

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Bahrain														
Money (mn dinars)	77.8	127.9	152.5	171.3	186.1	192.2	248.8	222.9	207.3	208.3	219.0	211.5	218.9	216.6
Growth rate	..	64.5	19.2	12.4	8.6	3.3	29.4	-10.4	-7.0	0.4	5.2	-3.4	3.5	-1.0
Kuwait														
Money (mn dinars)	290.3	393.7	490.7	636.4	669.4	720.8	1 286.6	1 282.4	1 214.4	992.6	1 023.2	1 025.3	1 085.3	1 005.7
Growth rate	48.4	35.6	24.6	29.7	5.2	7.7	78.5	-0.3	-5.3	-18.3	3.1	0.2	5.9	-7.3
Oman														
Money (mn rials)	71.6	102.1	111.2	114.3	123.1	154.7	212.7	248.8	299.1	283.9	328.6	312.8	335.2	315.3
Growth rate	47.9	42.6	8.9	2.8	7.7	25.7	37.5	17.0	20.2	-5.1	15.7	-4.8	7.2	-5.9
Qatar														
Money (mn rials)	1 005.0	1 576.0	2 087.0	2 307.0	2 492.0	2 274.0	3 403.0	3 795.0	3 625.0	4 135.0	4 017.0	4 487.0	4 778.0	3 399.0
Growth rate	78.2	56.8	32.4	10.5	8.0	-8.7	49.6	11.5	-4.5	14.1	-2.9	11.7	6.5	-28.9
Saudi Arabia														
Money (bn rials)	14.2	24.3	38.4	49.2	54.7	59.0	73.0	83.8	84.9	83.0	81.8	86.3	90.5	93.4
Growth rate	93.5	71.2	58.3	28.1	11.2	7.8	23.8	14.8	1.4	-2.3	-1.4	5.4	4.9	3.2

	1989	1990	1991	1992	1993	1994	1995	1976-1980	1981-1985	1986-1990	1991-1995	1996	1997	1998
Bahrain														
Money (mn dinars)	211.6	258.6	262.9	298.7	314.9	302.5	283.3	166.0	221.2	215.6	292.5	290.9	306.1	314.0
Growth rate	-2.3	22.2	1.7	13.6	5.4	-3.9	-6.4	21.6	3.5	-0.3	2.1	2.7	5.2	2.6
Kuwait														
Money (mn dinars)	969.5	..	1 201.2	1 108.5	1 114.0	1 126.0	1 185.0	582.2	1 159.8	1 038.8	1 146.9	1 242.6	1 247.5	1 230.3
Growth rate	-3.6	..	..	-7.7	0.5	1.1	5.2	20.6	11.5	-0.4	-0.2	4.9	0.4	-1.4
Oman														
Money (mn rials)	345.4	390.8	405.7	433.0	451.5	472.9	471.3	121.1	274.6	321.1	446.9	503.4	549.7	562.4
Growth rate	9.5	13.1	3.8	6.7	4.3	4.7	-0.3	17.5	17.1	-1.2	3.8	6.8	9.2	2.3
Qatar														
Money (mn rials)	3 403.0	4 055.0	3 629.0	3 990.0	4 254.0	3 910.0	3 720.0	2 147.2	3 795.0	4 221.3	3 900.6	3 885.0	4 131.0	4 358.0
Growth rate	0.1	19.2	-10.5	9.9	6.6	-8.1	-4.9	19.8	13.6	-3.6	-1.4	4.4	6.3	5.5
Saudi Arabia														
Money (bn rials)	91.4	101.9	120.0	123.5	121.5	125.6	124.6	45.1	81.3	90.1	123.0	133.1	141.3	147.0
Growth rate	-2.2	11.6	17.7	2.9	-1.6	3.4	-0.8	35.3	7.3	4.5	4.3	6.8	6.1	4.0

Note: Table is based on annex tables 1-6 of the present study.

commodities, and changes in the exchange rate as the independent variables. Table 13 gives the regression results derived from the following equation:

$$Y = a + bX_1 + cX_2 + dX_3 + eX_4 + f$$

Where X_1 = annual change in the money supply (M1)
X_2 = annual change in world oil prices
X_3 = annual change in world non-oil prices
and X_4 = exchange rate changes

TABLE 13. RELATIONSHIP BETWEEN INFLATION AND MONEY GROWTH IN SAUDI ARABIA

	1973-1996
R squared	0.883
M1[a/]	0.383 (11.2)
World oil prices	0.032 (2.17)
World non-oil prices	0.032 (0.595)
Exchange rate	12.5 (2.178)
Number of observations	24

Source: Staff calculations (based on data in annex table 12 of the present study).

Note: Numbers in parentheses are t statistics.

a/ M1= demand deposits and currency in circulation.

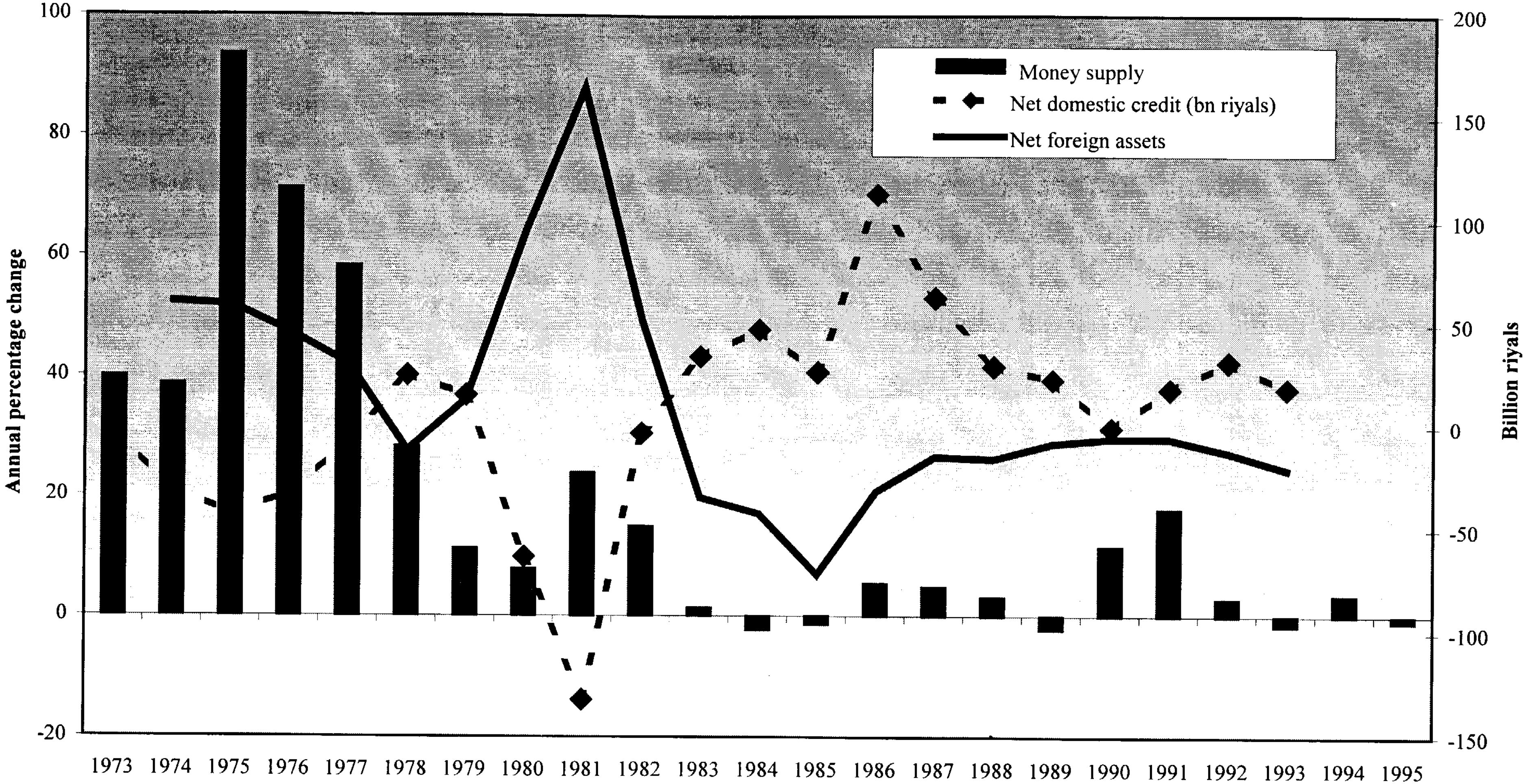
The model underscores the relationship of money growth and the exchange rate with inflation. Money supply growth, world oil prices and exchange rate movements were significant at a 95 % confidence level, indicating that these variables explain 88.3 per cent of the movements in inflation from 1976 to 1996. As expected, world non-oil commodity prices were insignificant in terms of explaining inflation in Saudi Arabia because of the country's price controls and subsidies.

Table 14 shows the changes in the money supply in the more diversified economies. The pattern reflects the paradigm in economic theory that inflation is a function of money creation. In the more diversified economies large increases in the domestic money supply fuelled inflation, particularly during the 1980s, when most of these economies relied on deficit financing. Figures 24 and 25 illustrate how closely inflation followed increases in the money supply in both Egypt and Jordan from the mid-1970s to the late 1980s.

In recent years most of the more diversified economies have made an effort to harmonize key monetary policy instruments, especially money supply growth with the tightening of fiscal policies. The combined effect has been to moderate inflationary pressures in most of these economies in the 1990s (see table 14).

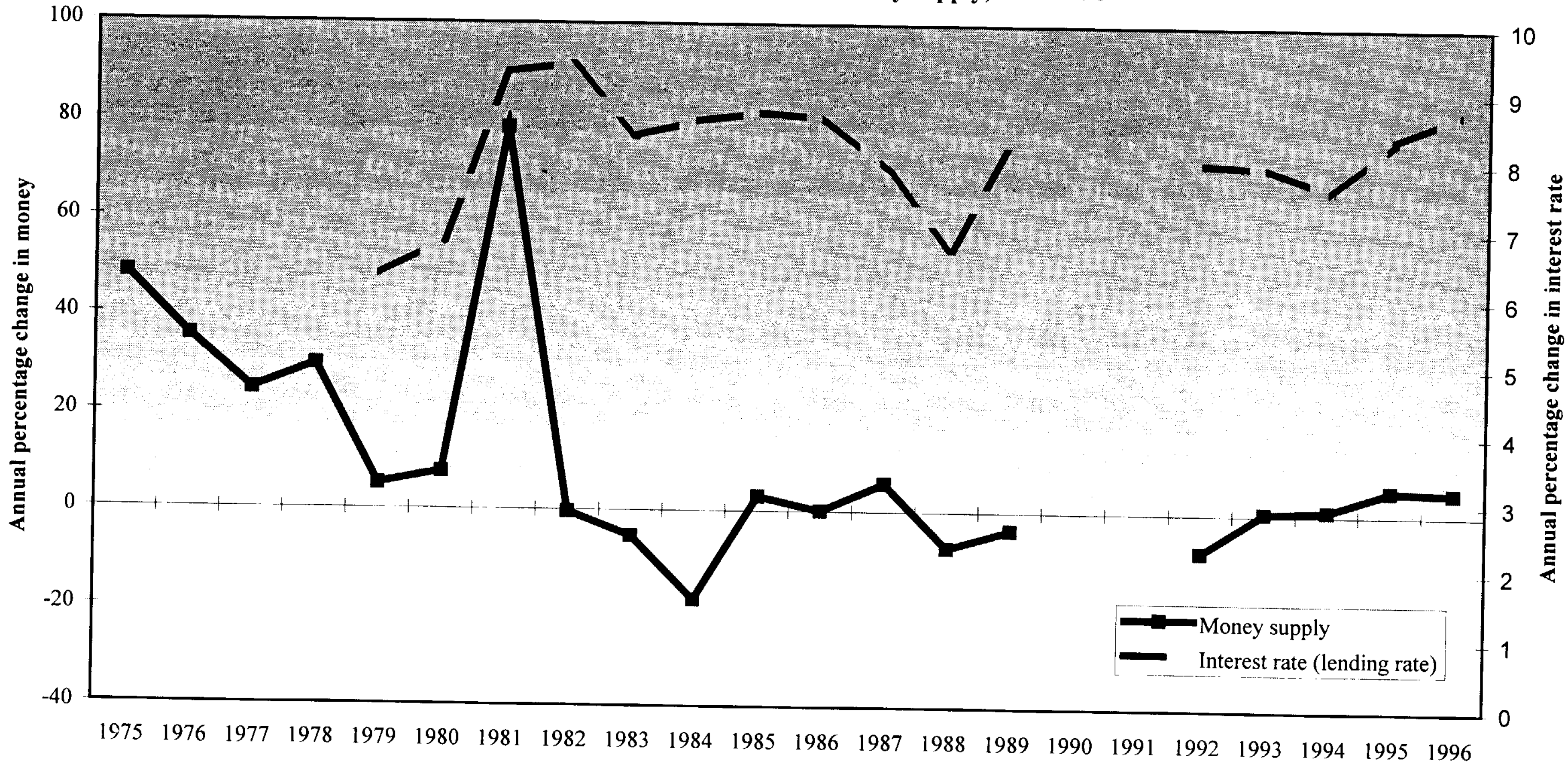
The correlation between inflation and money growth has been especially noticeable in the case of Iraq in the past few years, as figure 26 illustrates. The relationship between the two variables was tested for three periods, and the results revealed that growth in the money supply explained 92 per cent of the changes in consumer prices between 1981 and 1994 (see table 15); however, when tested for the pre-Gulf war period alone, the relationship was not shown to be significant, as R squared dropped to 27 per cent. This may be attributable to the fact that even during the Iran-Iraq War, oil revenues continued to provide the economy with sufficient capital inflows to enable it to meet its import-dependent production requirements. Growth in the money supply was not the major factor influencing price changes. Although prices rose in comparison with earlier periods, the increases remained moderate (see box 4). However, the relationship between the money supply and inflation became both positive and strong during the period from 1988 to 1995: money creation after the Iran-Iraq war became the prime factor responsible for the triple-digit inflation levels in Iraq.

Figure 21. Saudi Arabia: monetary indicators, 1973-1995



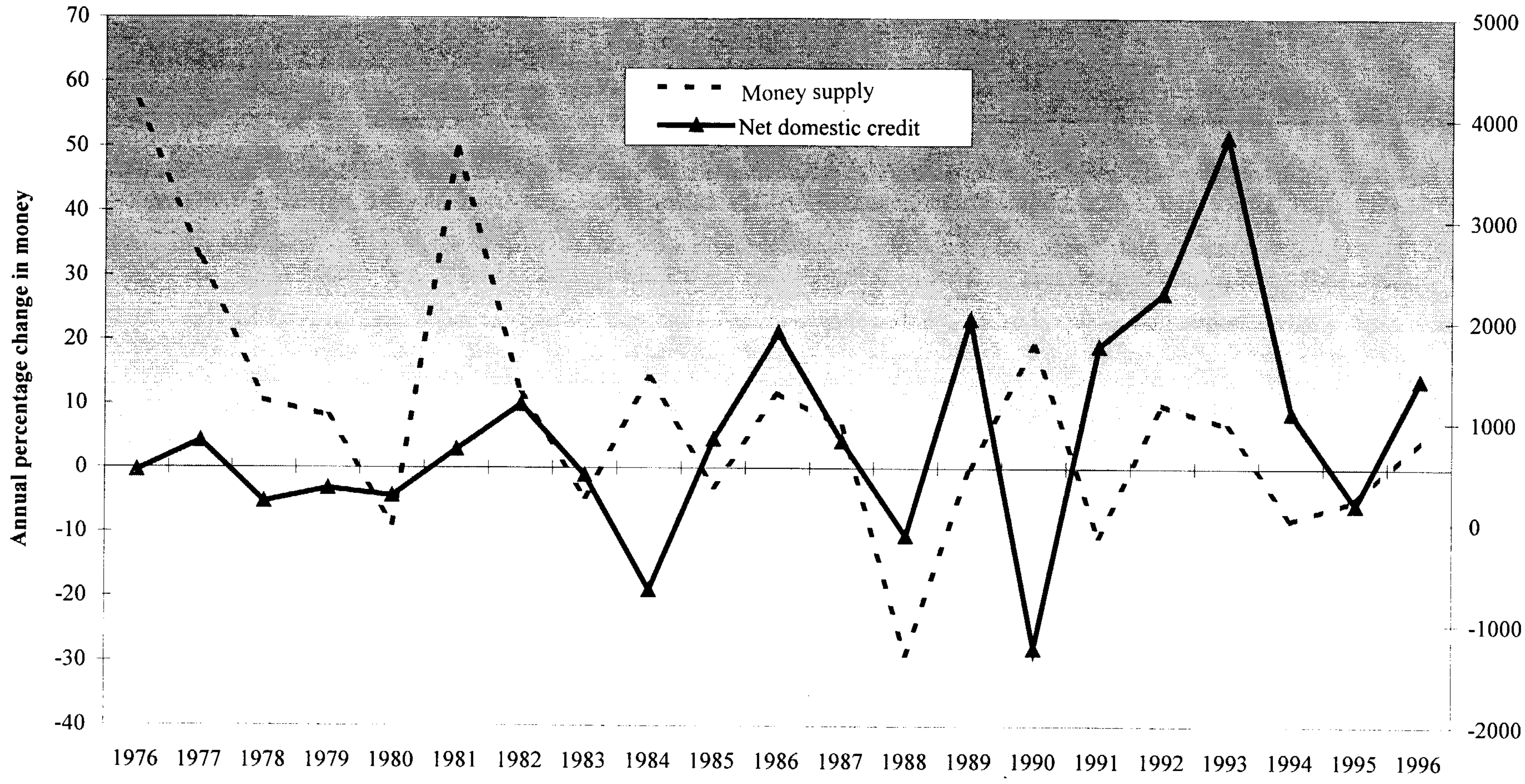
Note: Figure is based on annex table 1 of the present study.

Figure 22. Kuwait: growth in the money supply, 1975-1996



Note: Figure is based on annex table 1 of the present study.

Figure 23. Qatar: domestic credit and money supply growth, 1976-1996



Note: Figure is based on annex table 5 of the present study.

TABLE 14. MONETARY INDICATORS IN SELECTED MORE DIVERSIFIED ECONOMIES, 1975-1997

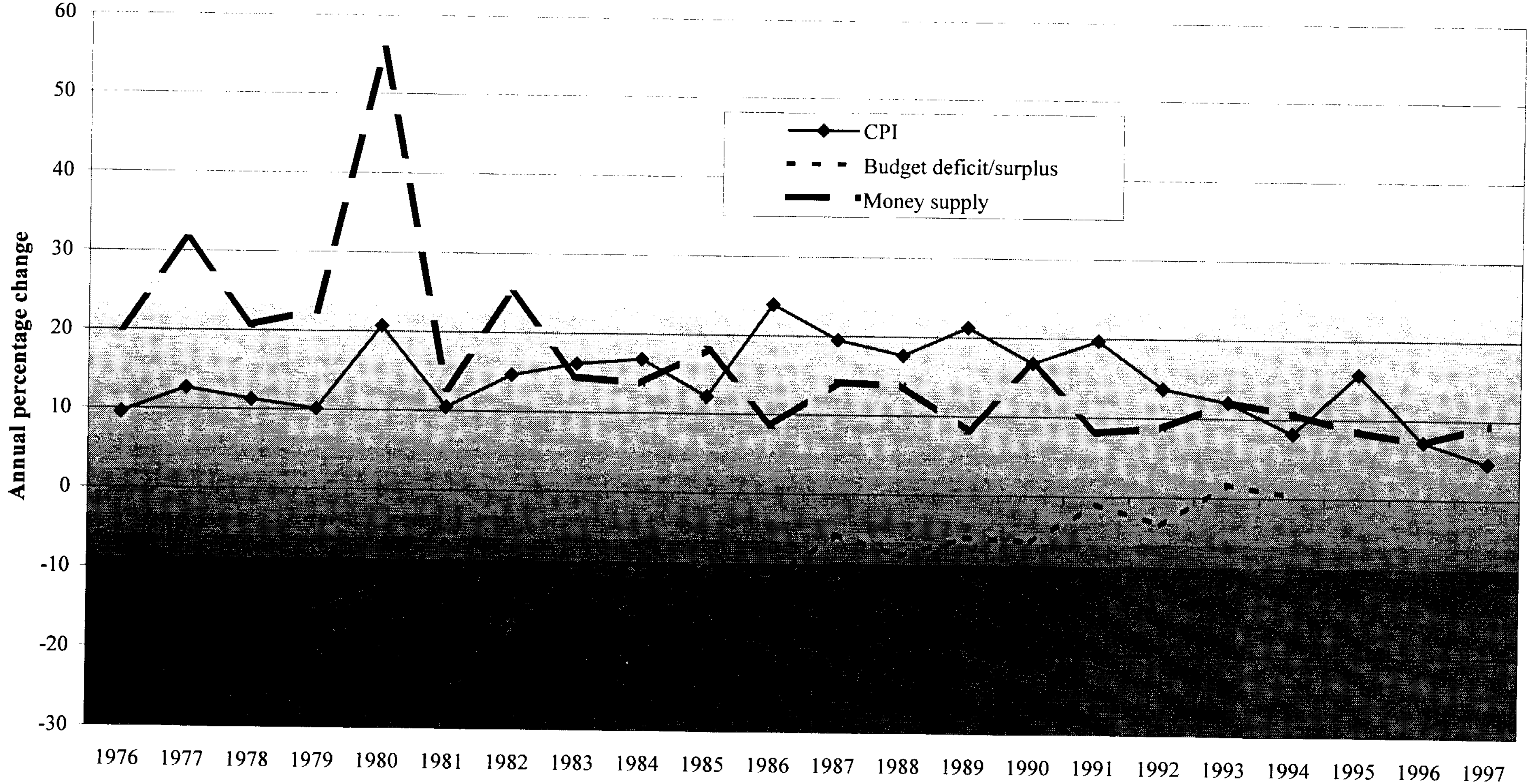
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Egypt														
Money (mn pounds)	1 863.0	2 239.0	2 943.0	3 553.0	4 354.0	6 775.0	7 646.0	9 552.0	10 933.0	12 443.0	14 696.0	15 973.0	18 241.0	20 759.0
Growth rate in money (%)	..	20.2	31.4	20.7	22.5	55.6	12.9	24.9	14.5	13.8	18.1	8.7	14.2	13.8
Growth rate in net credit (%)	..	14.9	17.4	57.3	25.3	42.1	27.1	23.1	18.6	20.9	19.4	18.8	17.3	20.2
Interest (deposit) rate	..	3.0	4.7	5.9	7.0	8.3	10.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Jordan														
Money (mn dinars)	224.7	276.7	329.0	370.5	465.5	580.7	701.7	787.5	869.4	878.4	848.2	897.1	979.8	1166.8
Growth rate in money (%)	..	23.1	18.9	12.6	25.6	24.7	20.8	12.2	10.4	1.0	-3.4	5.8	9.2	19.1
Growth rate in credit (%)	..	57.3	14.9	54.2	28.4	22.1	32.6	31.5	17.1	16.7	9.8	5.2	19.5	20.4
Lebanon														
Money (mn pounds)	3 835.9	4 904.8	5 061.5	6 147.8	6 683.8	7 666.6	9 005.1	11 069.8	12 945.0	13 783.6	20 154.2	30 325.6	68 890.0	182.9
Growth rate in money (%)	1.3	33.3	12.3	13.3	-3.3	19.0	15.5	41.8	14.2	13.7	41.5	34.8	129.6	239.6
Yemen														
Money (mn riyals)	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Growth rate in money (%)	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Syrian Arab Republic														
Money (mn pounds)	6 966.0	8 561.0	10 924.0	13 866.0	16 119.0	21 854.0	24 832.0	29 518.0	36 987.0	45 607.0	54 976.0	61 214.0	67 821.0	79 814.0
Growth rate in money (%)	..	22.9	27.6	26.9	16.2	35.6	13.6	18.9	25.3	23.3	20.5	11.3	10.8	17.7
Interest (deposit) rate	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0

TABLE 14 (*continued*)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1976-1980	1981-1985	1986-1990	1991-1995
Egypt													
Money (mn pounds)	22 471.0	26 205.0	28 337.0	30 832.0	34 571.0	38 275.0	41 540.0	44 521.0	48 708.0	3 972.8	11 054.0	18 324.3	34 711.0
Growth rate in money (%)	8.2	16.6	8.1	8.8	12.1	10.7	8.5	7.2	9.4	30.1	16.8	12.2	9.7
Growth rate in net credit (%)	25.0	26.4	7.9	3.6	7.2	13.1	16.6	13.9	15.9	31.4	21.8	18.7	9.7
Interest (deposit) rate	11.0	11.7	12.0	12.0	12.0	11.8	10.9	10.5	9.8	5.8	10.8	11.0	11.7
Jordan													
Money (mn dinars)	1 302.3	1 425.3	1 646.6	1 716.0	1 720.0	1 741.7	1 738.7	1 532.8	1 626.1	404.5	817.0	1 014.6	1 712.6
Growth rate in money (%)	11.6	9.4	15.5	4.2	0.2	1.3	-0.2	-11.8	6.1	21.0	8.2	11.4	4.2
Growth rate in credit (%)	5.4	5.6	-6.0	16.7	3.2	12.0	9.8	0.6	1.7	35.4	21.5	15.0	7.2
Lebanon													
Money (mn pounds)	287 186.0	449 923.0	689 405.0	1 199	1 213	..	..	..	..	6 092.9	13 391.5	33 132.8	1 034 230.3
Growth rate in money (%)	69.4	53.3	57.2	90.2	43.9	..	..	..	..	14.9	25.3	134.7	63.8
Yemen													
Money (mn riyals)	..	54 536.0	60 868.3	75 779.3	103 356.6	139 708.8	164 135.3	156 698.0	166 385.0	..	..	..	108 769.7
Growth rate in money (%)	..	..	11.6	24.5	36.4	35.2	17.5	-4.5	6.2	..	..	..	63.8
Syrian Arab Republic													
Money (mn pounds)	95 030.0	118 717.0	146 263.0	181 617.0	221 649.0	210 436.0	228 123.0	244 033.0	..	14 264.8	38 384.0	69 616.3	197 617.6
Growth rate in money (%)	19.1	24.9	23.2	24.2	22.0	-5.1	8.4	7.0	..	25.9	20.3	13.3	14.6
Interest (deposit) rate	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	..	5.0	..	..	5.0

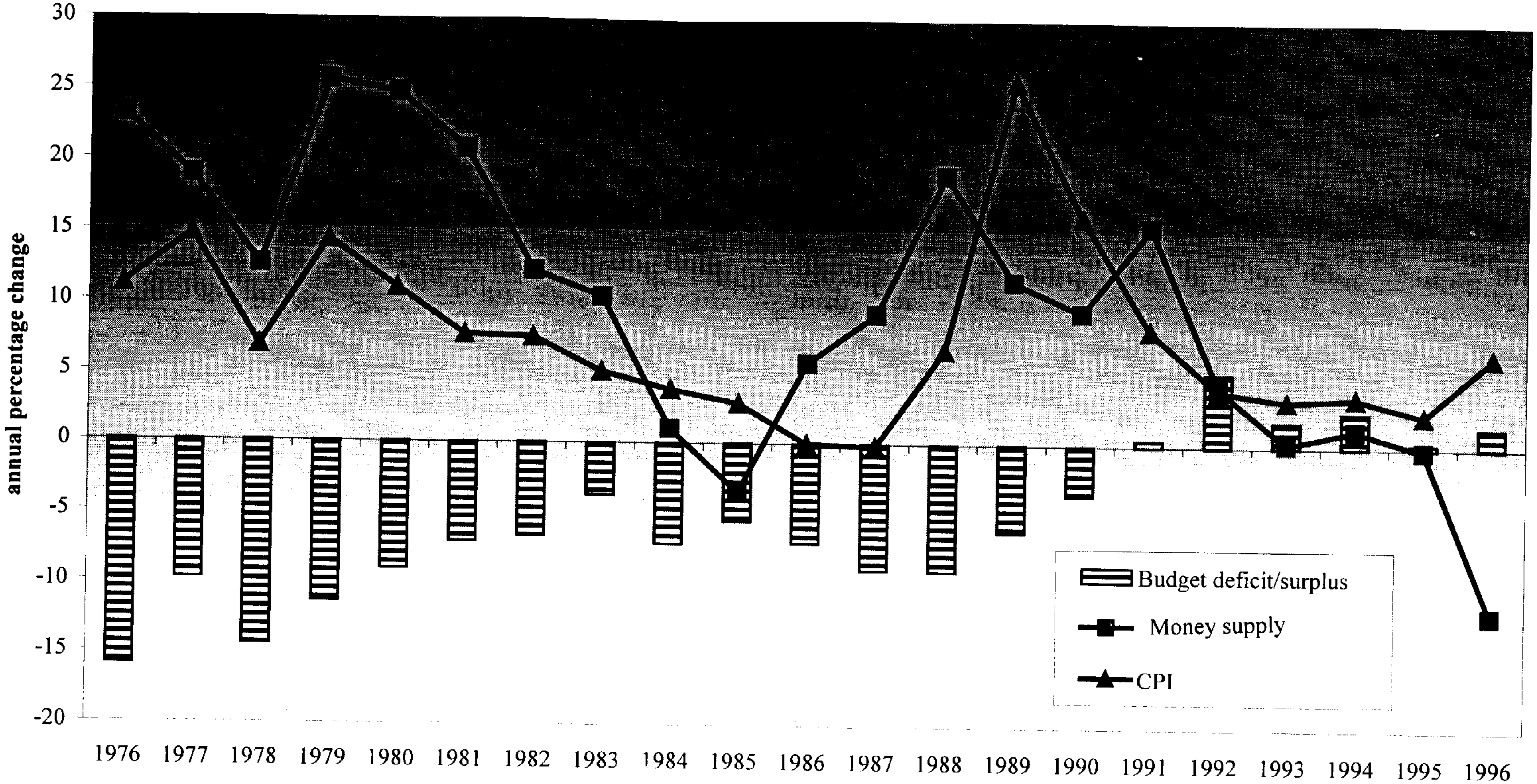
Note: Table is based on annex tables 6-10 of the present study.

Figure 24. Egypt: money supply, inflation and budget deficits, 1976-1997



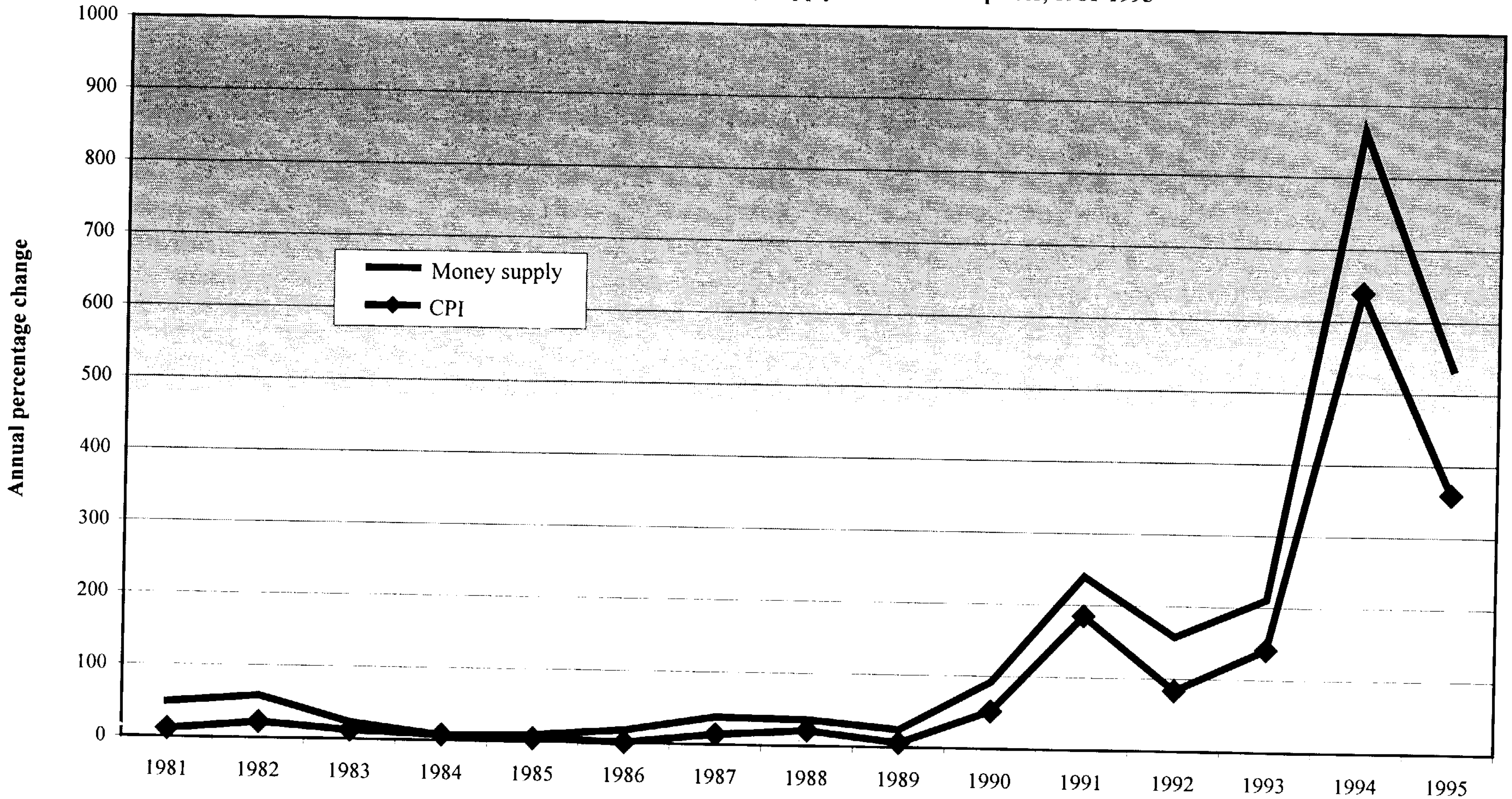
Note: Figure is based on annex table 6 of the present study.

Figure 25. Jordan: money supply, inflation and budget deficits, 1976-1996



Note: Figure is based on annex table 7 of the present study.

Figure 26. Iraq: growth in the money supply and consumer prices, 1981-1995



Note: Figure is based on annex table 11 of the present study.

TABLE 15. RELATIONSHIP BETWEEN MONEY GROWTH SUPPLY AND INFLATION IN IRAQ, 1981-1995

	1981-1995	1981-1988	1988-1995
R squared	0.9208	0.2704	0.911
Growth in the money supply[a/]	2.686 (12.301)	0.2649 (1.49)	2.818 (7.167)
Number of observations	15	8	8

Source: ESCWA estimates (see annex tables 13-15 of the present study).

Note: Figures in parentheses are t statistics.

a/ M1= demand deposits and currency in circulation.

Box 4. Role of monetary and fiscal policies in combating inflation in Iraq

Monetary and fiscal policies played only a minor role in combating inflation in Iraq during the 1980s; government policies were geared towards maintaining economic growth, since inflation was not considered a major problem. Though the interest rate was raised from 6 to 8 per cent per annum at the end of 1980s, the real interest rate remained negative since the prevailing average annual rate of inflation exceeded 24 per cent. The Central Bank did not raise reserve levels for the commercial banks in order to reduce the money supply, nor did the Ministry of Finance offer government securities for sale.

Oil proceeds remained the major source of budgetary revenues during the decade 1980-1989. Total revenues from taxation lagged behind expenditures, and the Government had to borrow to cover its consumption and investment expenditures, especially when there was a decline in oil proceeds caused by a sharp decrease in international oil prices.

Fiscal policy was not successful in curbing the excess purchasing power of companies and individuals. Direct taxation revenues did not rise as fast as income had risen owing to the glaring inefficiencies in the taxation system and high rates of tax evasion. Where indirect taxation was concerned, sales taxes and excise duties were not strictly regulated. The result was that revenues from both direct and indirect taxation constituted only a small percentage of total budgetary revenues.

Moreover, as an incentive to rebuild the economy after the Iran-Iraq war, many industrial and agricultural companies were exempted from direct taxation for a period of 10 years, starting in 1988. The agricultural sector was totally exempt from direct taxation, and physicians and engineers were not required to pay income tax. Specialized banks offered credit facilities to industrial and agricultural enterprises and individuals at lower rates of interest than those advertised by the commercial banks. Total lending by the specialized banks increased 300 per cent, rising from 221.1 million Iraqi dinars (ID) in 1979 to approximately ID 647.5 million in 1990.

Monetary and fiscal policies proved ineffective against the triple-digit inflation levels experienced after the Gulf war and the imposition of sanctions.

With the productive capacity of the economy seriously circumscribed, it became very difficult to further depress aggregate demand further using monetary and fiscal policy tools. After the Gulf war, monetary policy did little to curb the sky rocketing inflation. The interest rate lost its value as a means of stimulating savings and investment. Though it was raised from 10 per cent in 1990 to 20 per cent at the end of 1995, the 350 per cent annual inflation rate made real interest rates severely negative. Public securities were offered for sale to the public, but their yield was only marginally higher than the prevailing interest rate, depositing savings with commercial banks a more attractive option than buying the securities. In addition, the commercial banks' reserve requirement with the Central Bank was not raised by the same percentage as the money supply increases. The high rate of inflation meant that the commercial bank liquidity ratio was abnormally high.

From 1993 to 1995 seven private commercial and investment banks were licensed to extend loans and credit facilities to companies and individuals. Despite the fact that these banks charged around 60 per cent by 1995, the demand for credit remained excessive because of the high negative real interest rates. By the end of 1995, the Central Bank intervened and refused to allow private banks to impose rates higher than the 20 per cent fixed by the Central Bank. In 1998, two more private banks were licensed. These policies served to augment the money supply, and thereby fostering inflation.

In 1996, the Government declared the reduction of inflation a priority. Certain plans were set in motion: it would become illegal to add to the supply of money already in circulation, and income, capital gains and other company tax exemptions would be abolished.

B. EXCHANGE RATE REGIMES AND INFLATION

One of the major reasons for the low inflation levels in all of the GCC countries and most of the more diversified economies during the world inflationary periods was that the exchange rates were fixed/pegged to the US dollar, which appreciated over the years in relation to other world currencies.

The move towards free-floating exchange rates in the early 1970s allowed many developing countries to pursue greater monetary accommodation in response to adverse economic conditions, but this made the inflation experiences of most developing countries after the supply shocks of the 1970s and 1980s more difficult. A study of 136 developed and developing countries for the period 1960 to 1990 found that countries with fixed exchange rates generally experienced lower levels of, and less variability in, inflation levels than those with flexible exchange rate regimes.[17] Moreover, inflation was lower in countries that did not adjust their currencies than in those that had pegged exchange rates but adjusted them frequently.[18] Among the low- and lower-middle-income developing countries, the rise in inflation in those countries that infrequently adjusted their exchange rate pegs was, on average, 0.4 per cent lower than the world average between 1960 and 1990; in those countries that frequently adjusted their rates, the increase in inflation was 5.2 per cent higher than the world average (see table 16).

TABLE 16. INFLATION PERFORMANCE AND EXCHANGE RATE REGIMES IN LOW- AND LOWER-MIDDLE-INCOME DEVELOPING COUNTRIES, 1960-1990

Type of exchange rate regime	Percentage deviation from global mean: Average inflation	Percentage deviation from global mean: Volatility of inflation
Pegged exchange rate	0.2	1.9
Infrequently adjusted peg	-0.4	2.2
Frequently adjusted peg	5.2	-0.1
Intermediate	4.0	4.4
Floating exchange rate	6.6	6.8
Pure float	8.8	17.4

Source: Atish Ghosh and others. *Does the Nominal Exchange Rate Regime Matter?* IMF Working Paper, No. 95/121 (Washington, D.C., November 1995).

The importance of the stability of the exchange rate regime is underscored by Lebanon's experience with inflation during the 1980s; in this country, exchange rates were free.

Among the determinants of inflation in Lebanon after 1975 were the destruction of the economy, fiscal imbalances, credit creation, capital flight and the country's worsening external position. However, one of the major causes of hyperinflation in Lebanon was the sudden depreciation and the volatility of the exchange rate. Before the civil war Lebanon had a macroeconomic environment backed by a flexible exchange rate, with the Lebanese pound fairly stable at LL 2/US$ 1. Inflation and exchange rate movements were closely related in Lebanon during the civil war from 1975 to 1990. Owing to uncertainties from the conflict, economic imbalances and the dollarization of the Lebanese economy, the behaviour of domestic prices came to be heavily influenced by fluctuations in the exchange rate. A study examining the statistical association of the Lebanese pound with the rate of inflation found a strong positive correlation between the exchange rate movements and inflation levels in the Lebanese economy during the period 1975 to 1993.[19] At

[17] Atish Ghosh and others. *Does the Nominal Exchange Rate Regime Matter?* IMF Working Paper No. 95/121 (Washington, D.C., November 1995).

[18] Ibid.

[19] International Monetary Fund, *Economic Dislocation and Recovery in Lebanon*, Occasional Paper No. 120 (Washington, D.C., February 1995), pp. 38 and 40.

the same time, the relationship between them was not one way; inflation levels also had an effect on movements in the exchange rate in Lebanon.

A regression model was constructed for the present study to test the relationship between changes in inflation, growth in the money supply, changes in the exchange rate, and world oil prices for Lebanon. Table 17 gives the regression results derived from the following equation:

$$Y = a + bX_1 + cX_2 + dX_3 + e$$

Where X_1 = change in the exchange rate
X_2 = change in the money supply (M1)
X_3 = change in world oil prices

TABLE 17. RELATIONSHIP BETWEEN THE EXCHANGE RATE AND INFLATION IN LEBANON

	1976-1993
R squared	0.963
Exchange rate	0.815 (14.7)
M[a/]	0.503 (4.39)
World oil prices	0.348 (2.109)
Number of observations	18

Source: Staff calculations (see annex table 16 of the present study).

Note: Numbers in parenthesis are t statistics.

a/ M1 = demand deposits and currency in circulation.

Changes in the independent variables exchange rate, money supply and world oil prices which were transmitted through in Lebanon explained over 96 per cent of the increases in inflation during the period 1976-1993. All three were significant at a 95 per cent confidence level. The fact that the coefficients for the three independent variables were positive indicates that each had a positive relationship with inflation.

Figure 27 shows the close correlation between money growth and inflation in Lebanon; the fact that the fluctuations follow similar patterns indicates that changes in the money supply were a major determinant of the changes in consumer prices from 1975 to 1993.

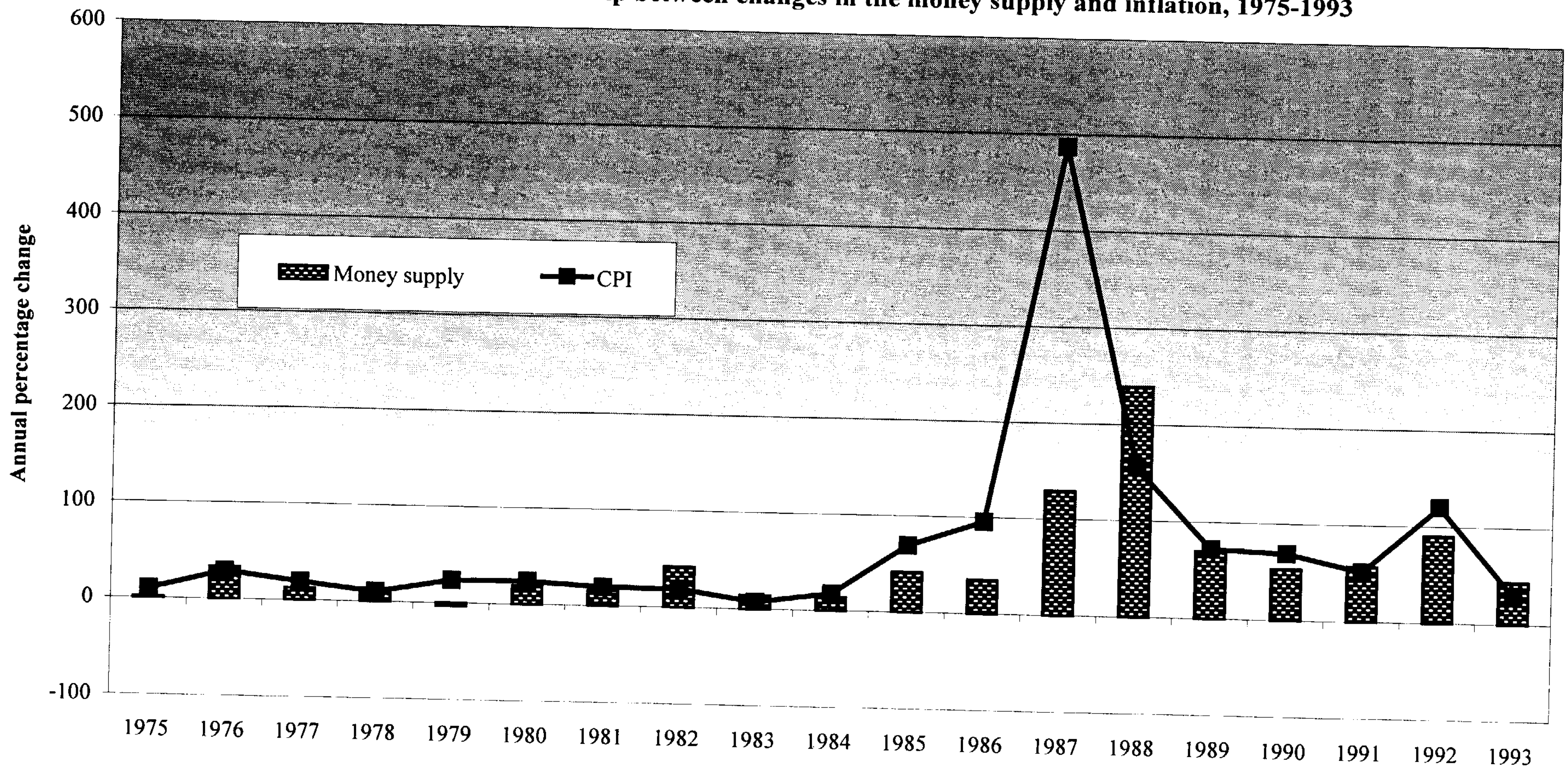
The experiences of countries worldwide clearly show that whereas monetary policy variables are important, an economic stabilization and adjustment programme must provide exchange rate stability coupled with restraint in other economic (including fiscal) policy areas if it is to be effective.

C. COMMODITY PRICE SHOCKS

A strictly exogenous shock is a rise in the price of a commodity independently of the impact of the demand for that commodity. Exogenous price shocks were witnessed in 1973 and 1974 when food prices rose as a result of poor harvests and the increase in the price of oil following a decision by the Organization of Petroleum Exporting Countries (OPEC) to that effect. Subsequently, oil price increases were not strictly exogenous, inasmuch as they reflected the interaction between world supply and demand, especially in the 1990s.

The major trigger for inflation both in the ESCWA region and worldwide has been commodity price shocks, in particular oil price shocks. The inflationary episodes in 1973 and 1974, in 1979 and 1980, from 1988 to 1990, and in 1994 were all triggered by disruptions in commodity markets.

Figure 27. Lebanon: relationship between changes in the money supply and inflation, 1975-1993



Note: Figure is based on annex table 10 of the present study.

As table 18 indicates, food and other commodity prices increased by 62 per cent in 1973 and by 21 per cent in 1974 owing to the failure of major harvests. This rise in prices came during a time (the early 1970s) when the world economic environment was already inflationary owing to rising wages and full employment. The trebling of oil prices in late 1974 compounded the adverse effect of the non-oil price rises and sent inflation levels soaring all over the world.

With the supply shocks (output declines), the price level in the economies would have risen in any case, given the monetary and fiscal policies. The trade-off for economic management was that policies for reducing inflation would have meant increased unemployment and a further decline in output, while policies for maintaining output would have brought on a higher level of inflation.

A poorly diversified economic base has kept the GCC countries vulnerable to supply shocks. In the past, such shocks led to increases in government revenues or public investment and consumption expenditures in these countries, and because of their limited absorptive capacity, price levels rose.

World oil price rises constituted a major supply shock for most of the more diversified economies.[20] Because of their poorly diversified export base, the more diversified economies tend to be vulnerable to external shocks. This group of countries is sensitive not only to oil price changes but also to disruptions in non-oil commodity prices, given their overwhelming dependence on food imports (the late 1980s is a case in point). This vulnerability has become even more pronounced since price liberalization in the past few years has often involved passing the higher prices of non-oil commodities on to the consumer.

In the more diversified economies, as in most of the other oil-importing countries of the world, commodity price shocks, and especially oil price shocks, raised the aggregate price level and shifted the slope of the supply curve more steeply upward. The oil price increases forced economic policy management to make a choice: (a) the resultant increase in the aggregate price level could be accepted and supported through the implementation of an expansionary aggregate demand policy, or (b) aggregate demand could be reduced, which would result in a slight decrease in output. Most of the more diversified economies and other developing countries chose to maintain output and growth at the expense of higher inflation.

D. Fiscal deficits and inflation

In most of the ESCWA member countries financial markets are limited, so monetary policy tends to play less of a role than fiscal deficits in explaining inflation. The build up of large and persistent fiscal deficits in most of these countries following the surge in oil revenues during the decades of the 1970s and 1980s was a major determinant of the high levels of inflation experienced by the region.

Lessons learned from experience worldwide indicate that countries may run into economic difficulties if revenues from windfall gains are used to incur public expenditures that cannot be sustained in the long run. Such was the case in most of the GCC countries by the 1980s.

The impact of fiscal deficits has been more pronounced in the more diversified economies, where supply shocks built up fiscal imbalances. Most of these countries continued with their expansionary policies well into the 1980s, after oil prices had declined, borrowing both externally and domestically to sustain the momentum of high growth in a generally recessionary economic climate. With the decline world output, the higher levels of world interest rates raised the debt service obligations of the more diversified economies. Coupled with lower export earnings, this placed a greater burden on this group. The fiscal deficits were closely related to the rising level of inflation in most of these economies during the 1980s.

Table 19 shows the deficit as a percentage of GDP in selected more diversified economies. The budgetary deficit averaged a high 15.9 per cent in Egypt in the late 1970s, following the oil price rise; even in the late 1980s the fiscal deficit averaged around 7 per cent. The situation was similar in Jordan during

[20] A supply shock is a disturbance to the economy on the supply side.

TABLE 18. OIL AND NON-OIL COMMODITY PRICES, 1969-1998*
(*US dollars*)

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Crude oil price/bbl	2.1	2.1	2.6	2.8	3.1	11.2	10.6	11.8	12.8	12.9	29.2	36.7	35.3	32.4	29.7	28.5	27.3	14.20
Percentage change	..	0.0	21.8	8.9	10.7	261.3	-5.4	11.3	8.5	0.8	126.4	25.7	-3.8	-8.2	-8.5	-3.9	-4.2	-47.99
Non-oil commodity price	37.3	38.8	38.1	41.0	66.4	80.5	67.3	74.2	82.1	83.4	101.0	107.1	96.7	87.1	93.4	93.5	81.2	80.00
Percentage change	..	4.0	-1.8	7.6	62.0	21.2	-16.4	10.3	10.6	1.6	21.1	6.0	-9.7	-9.9	7.2	0.1	-13.2	-1.48
Food price index (1990=100)	45.5	47.8	49.4	53.3	96.2	119.0	95.5	89.5	86.8	98.4	114.8	124.7	120.8	102.5	110.5	109.8	91.6	80.50
Percentage change	..	5.1	3.3	7.9	80.5	23.7	-19.7	-6.3	-3.0	13.4	16.7	8.6	-3.1	-15.1	7.8	-0.6	-16.6	-12.12

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1st qtr. 1998	2nd qtr. 1998	1970-1975	1976-1980	1981-1985	1986-1990	1991-1997
Crude oil price/bbl	18.2	14.7	17.8	22.9	19.3	19.0	16.8	15.9	17.1	20.4	19.3	14.6	13.4	5.4	20.7	30.6	17.6	18.3
Percentage change	28.2	-19.2	21.1	28.7	-15.7	-1.6	-11.6	-5.4	7.5	19.3	-5.4	-24.4	-8.2	49.6	34.5	-5.7	2.1	-1.8
Non-oil commodity price	87.5	108.6	106.8	100.0	94.3	94.4	96.1	108.2	118.1	116.6	112.9	102.2	96.8	55.4	89.6	90.4	96.6	105.8
Percentage change	9.4	24.1	-1.7	-6.4	-5.7	0.1	1.8	12.6	9.1	-1.3	-3.2	-9.5	-5.3	12.8	9.9	-5.1	4.8	1.9
Food price index (1990=100)	84.3	108.6	110.6	100.0	99.1	101.3	100.0	105.1	113.7	127.5	113.7	106.4	101.2	76.9	102.8	107.0	96.8	108.6
Percentage change	4.7	28.8	1.8	-9.6	-0.9	2.2	-1.3	5.1	8.2	12.1	-10.8	-6.4	-4.9	16.8	5.9	-5.5	2.7	2.1

Source: International Monetary Fund, *International Financial Statistics Yearbook, 1997* and *International Financial Statistics, August 1998* (Washington D.C., 1997 and 1998 respectively).

* Average annual crude spot price.

these periods, with the deficit as a percentage of GDP averaging 12.1 and 7 per cent respectively. Jordan was the only member of this group to show a fiscal surplus during the first half of the 1990s (see table 19 and figure 28). The Syrian Arab Republic had lower deficits (in proportion to its GDP) than the other countries listed in the table. In Lebanon, fiscal deficits continued to finance government expenditures both during and after the war. Figure 29 shows the large gap between Lebanese revenues and expenditures.

TABLE 19. FISCAL DEFICITS IN SELECTED MORE DIVERSIFIED ECONOMIES
(*Percentage of GDP*)

	1976-1980	1981-1985	1986-1990	1991-1995
Egypt	-15.9	-10.4	-7.0	-0.6
Jordan	-12.1	-6.0	-7.0	2.0
Syrian Arab Republic	-7.7	-6.3	-2.0	-0.5
Yemen	..	..	..	-12.3
Lebanon	..	..	-9.3	-27.4[a/]

Note: Table is based on annex tables 6-10 of the present study.

a/ 1991-1994.

1. *Seigniorage (inflation tax) and economic policy*

Revenues from inflation, termed seigniorage or inflation tax, account for a considerable proportion of government revenues and GDP in many countries where inflation is moderate to high. A study of 71 countries found that during the period 1964-1994, the Governments of countries experiencing moderate to high levels of inflation collected substantial inflation tax revenues. Where average inflation was above 15 per cent per annum, as much as 24 per cent of total government revenues came from inflation tax.[21] For some developing countries with lower tax revenue bases and/or ineffective tax administration systems, inflation tax may seem like one way to enhance revenues without having to improve the efficacy of the tax management system. Theoretically, this could act as an incentive for money creation, though there is little evidence in the literature to support that revenue considerations form the basis for any "conscious" money creation or episodes of high inflation in most developing countries.[22] Inflation tax revenues have formed an important component of total government revenues in many of developing countries, especially during the inflationary periods following the supply shocks.

In many of the more diversified economies, seigniorage formed a substantial part of government revenues during episodes of high inflation. Table 20 indicates that inflation tax in Egypt accounted for as much as 17.6 per cent of government revenues during the period 1976-1980 (see figure 30). Figures 31 and 32 depict the relationship between base money growth and seigniorage in Jordan and the Syrian Arab Republic. Seigniorage in Jordan was at its highest in 1979, at 10.4 per cent of GDP, as the money base was expanding. In the Syrian Arab Republic, the situation was similar. Inflation tax revenues constituted around 25 per cent of government revenues per year during the second half of the 1980s, when average annual inflation was more than 30 per cent. The Syrian Arab Republic appears to be a textbook case exhibiting the relationship between inflation tax and fiscal imbalances. Seigniorage revenues constituted a much higher proportion of public earnings in the Syrian Arab Republic than in any of the other more diversified economies, averaging more than 30 per cent per annum during the second half of the 1980s. In the Syrian Arab Republic, reliance on inflation tax remained substantial in the mid-1990s. Though the Government instituted indigenous economic reforms aimed at stabilization and adjustment, especially fiscal adjustment, its failure to use monetary and fiscal policy tools conjunctively resulted in the continuation of inflationary pressures in the economy till the mid-1990s. Though reduced, seigniorage has remained substantial.

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[21] International Monetary Fund, *World Economic Outlook, October 1996* (Washington, D.C., 1996), p. 106.

[22] Rudiger Dornbusch, *World Bank Policy Research Bulletin*, vol. 2, No. 5 (Washington D.C., November-December 1991).

TABLE 20. INFLATION TAX IN SELECTED MORE DIVERSIFIED ECONOMIES, 1976-1996

	1976-1980	1981-1985	1986-1990	1991-1995
Egypt				
As a percentage of government revenues	17.6	14.3	11.6	5.8[a/]
As a percentage of GDP	8.6	6.1	3.5	1.9[b/]
Jordan				
As a percentage of government revenues	42.5	15.7	20.0	6.9
As a percentage of GDP	8.9	3.4	4.9	2.1
Syrian Arab Republic				
As a percentage of government revenues	29.4	20.1	30.5	25.3
As a percentage of GDP	8.2	8.8	6.8	5.2
Lebanon				
As a percentage of GDP	8.8	10.6	7.7	7.2

Notes: Table is based on annex tables 6-10 of the present study. Inflation tax = the change in the monetary base as a percentage of government revenues and GDP.

a/ Till 1993.

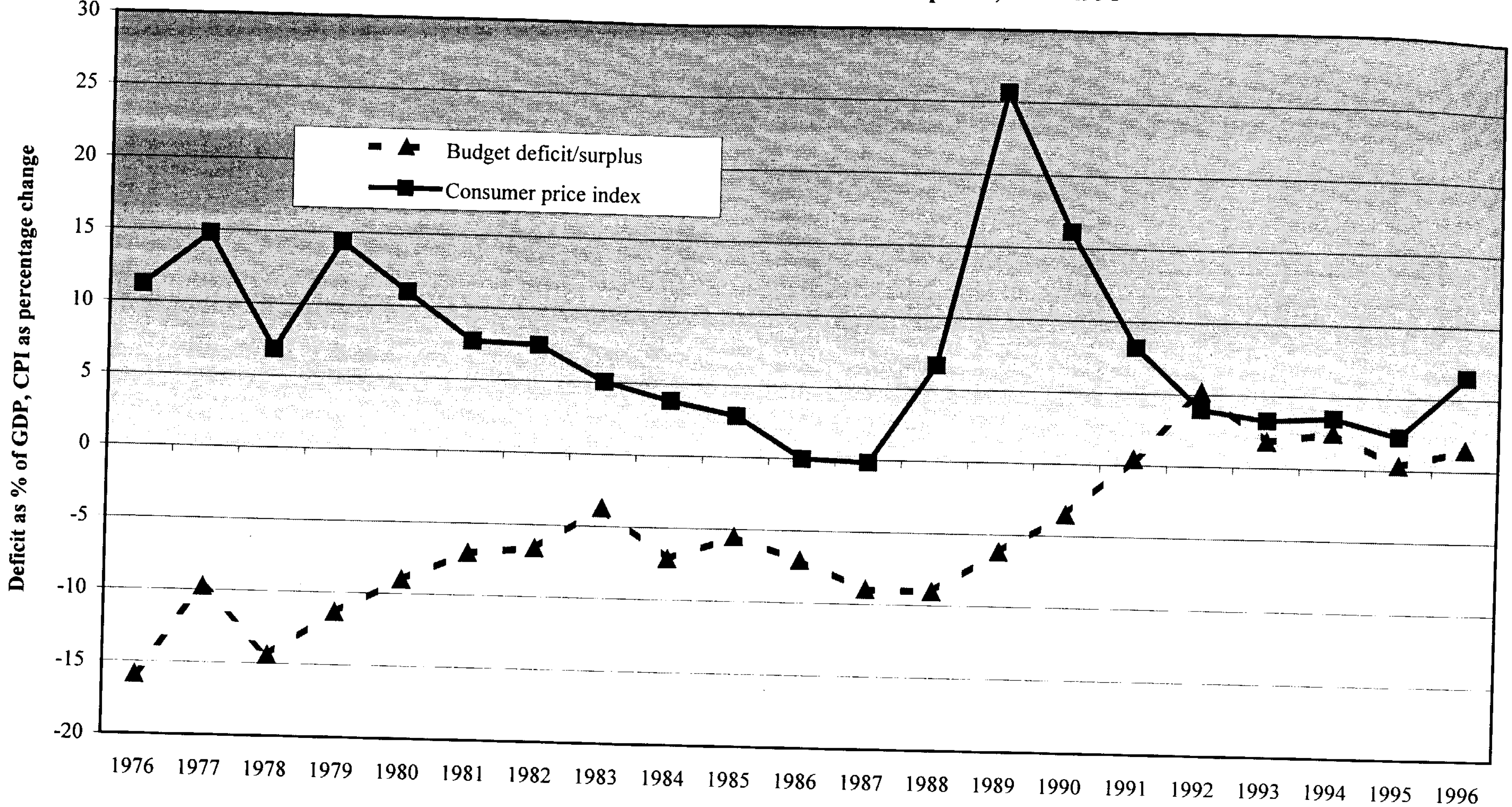
b/ Till 1997.

In recent years, progress in the structural reform programmes in many of the more diversified economies has obviated the need to generate revenues from inflation tax. The figures above indicate that as fiscal deficits have been brought under control in Egypt and Jordan, the contribution of inflation tax revenues to government revenues has become negligible. Since 1994, a serious effort to tighten the money supply and success in reducing the budgetary deficit have led to a reduction in Syrian inflationary pressures (a level of around 8 per cent was recorded for 1996), and the contribution of inflation tax earnings to government revenues has been kept to a minimum.

Considerable progress has also been made by countries such as Yemen in the past few years in the consolidation of fiscal deficits. However, Iraq has witnessed runaway inflation as fiscal deficits and the money supply have continued to spiral upward in the face of serious economic problems. Table 21 presents the seigniorage figures for these two countries. In Yemen, good management has reduced the level of inflation tax revenues as a proportion of GDP over the past few years. Seigniorage rose from 4.3 per cent in 1991 to 13.5 per cent in 1994, the year Yemen experienced a civil war. The 1994 figure was among the highest in the region in comparison with the historical pattern for all of the more diversified economies. However, a remarkable effort to curtail money supply growth brought inflation tax earnings down to 5.5 per cent of GDP in 1995 (see figure 33).

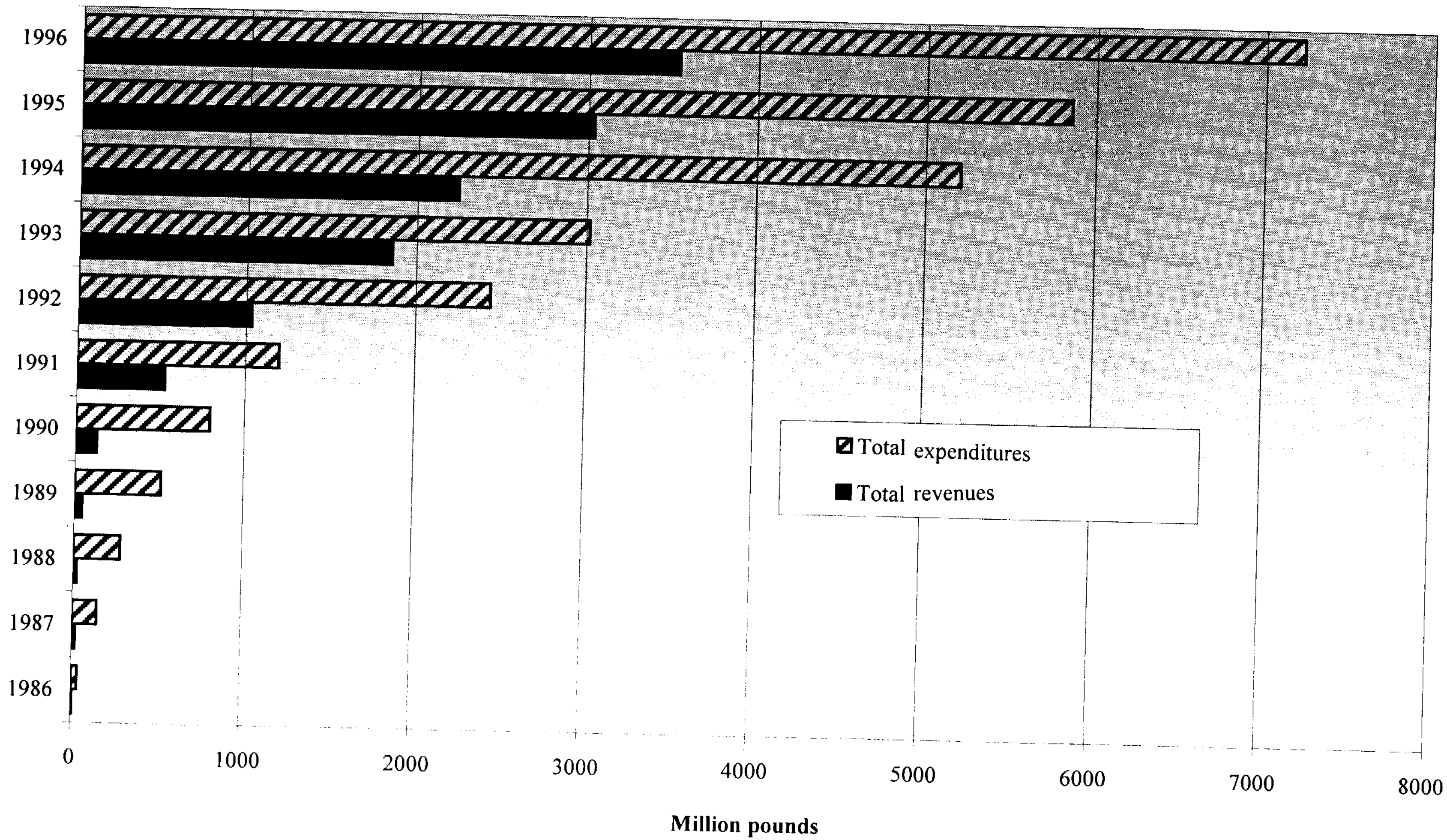
Inflation tax revenues in Iraq were very high until the mid-1990s—the highest in the ESCWA region—as the money supply rose rapidly. In 1991 seigniorage averaged a high 40 per cent of overall GDP; by 1995 it had been reduced to 15 per cent of GDP.

Figure 28. Jordan: fiscal deficits and consumer prices, 1976-1996



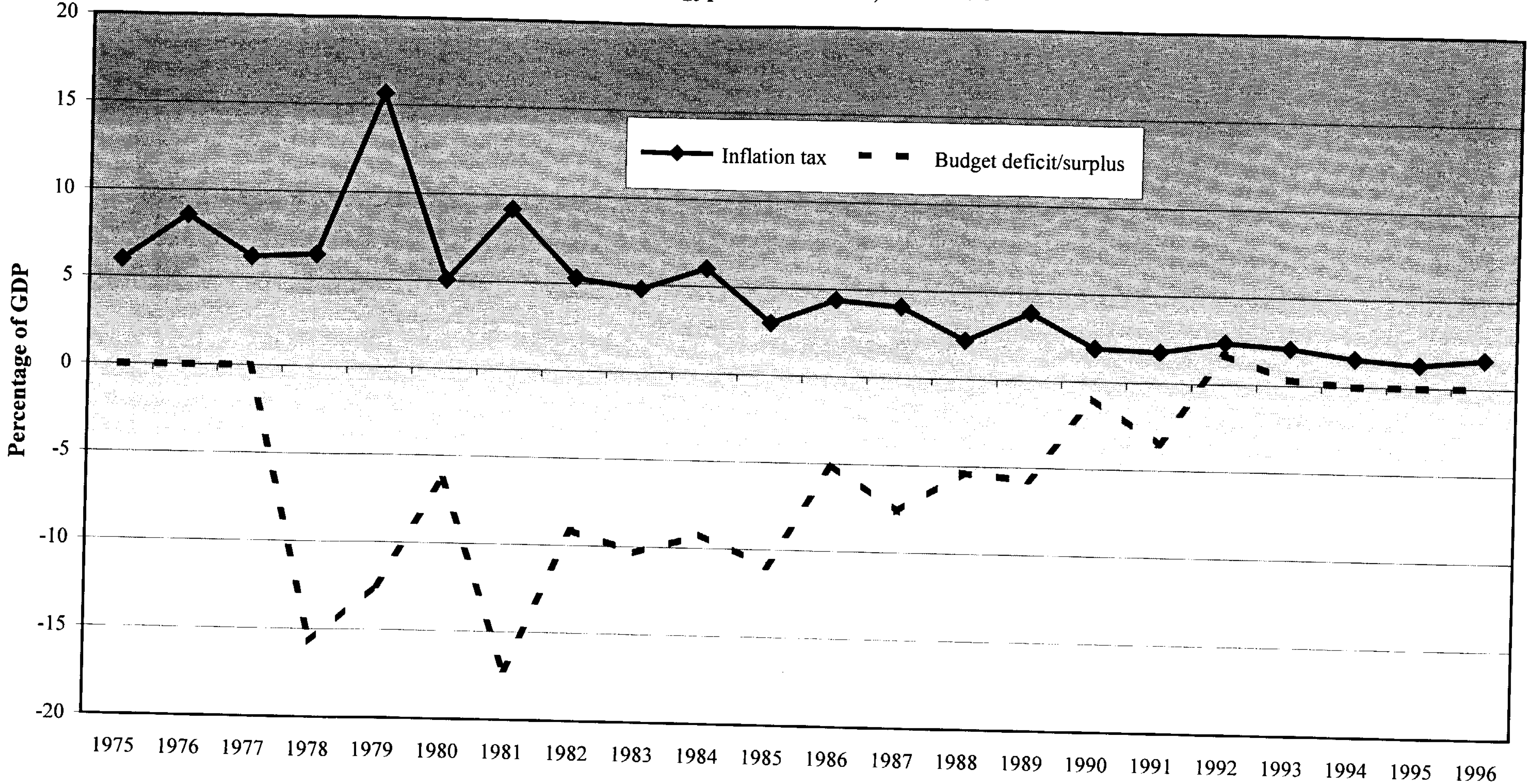
Note: Figure is based on annex table 7 of the present study.

Figure 29. Lebanon: revenues and expenditures, 1986-1996



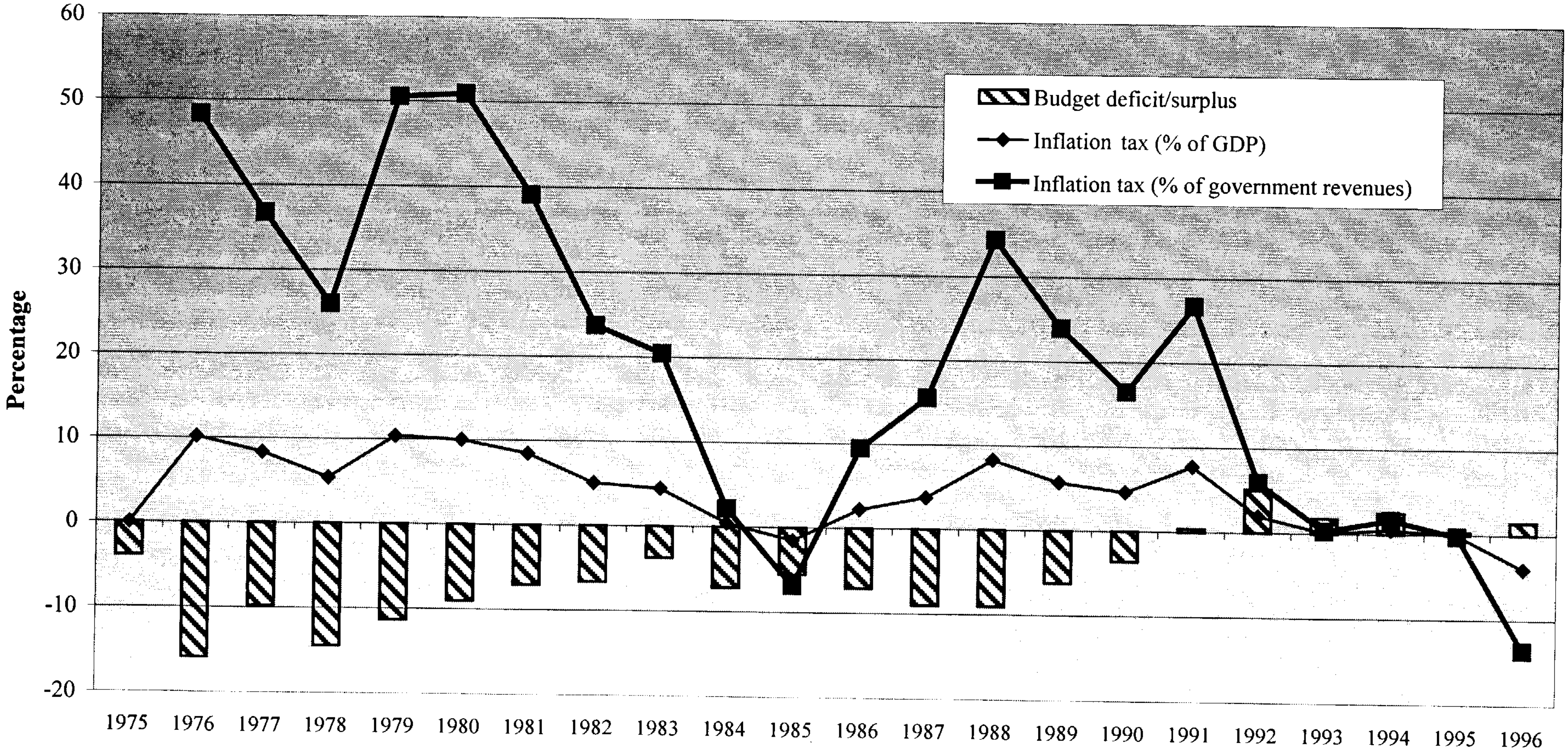
Note: Figure is based on annex table 10 of the present study.

Figure 30. Egypt: inflation tax, 1975-1996



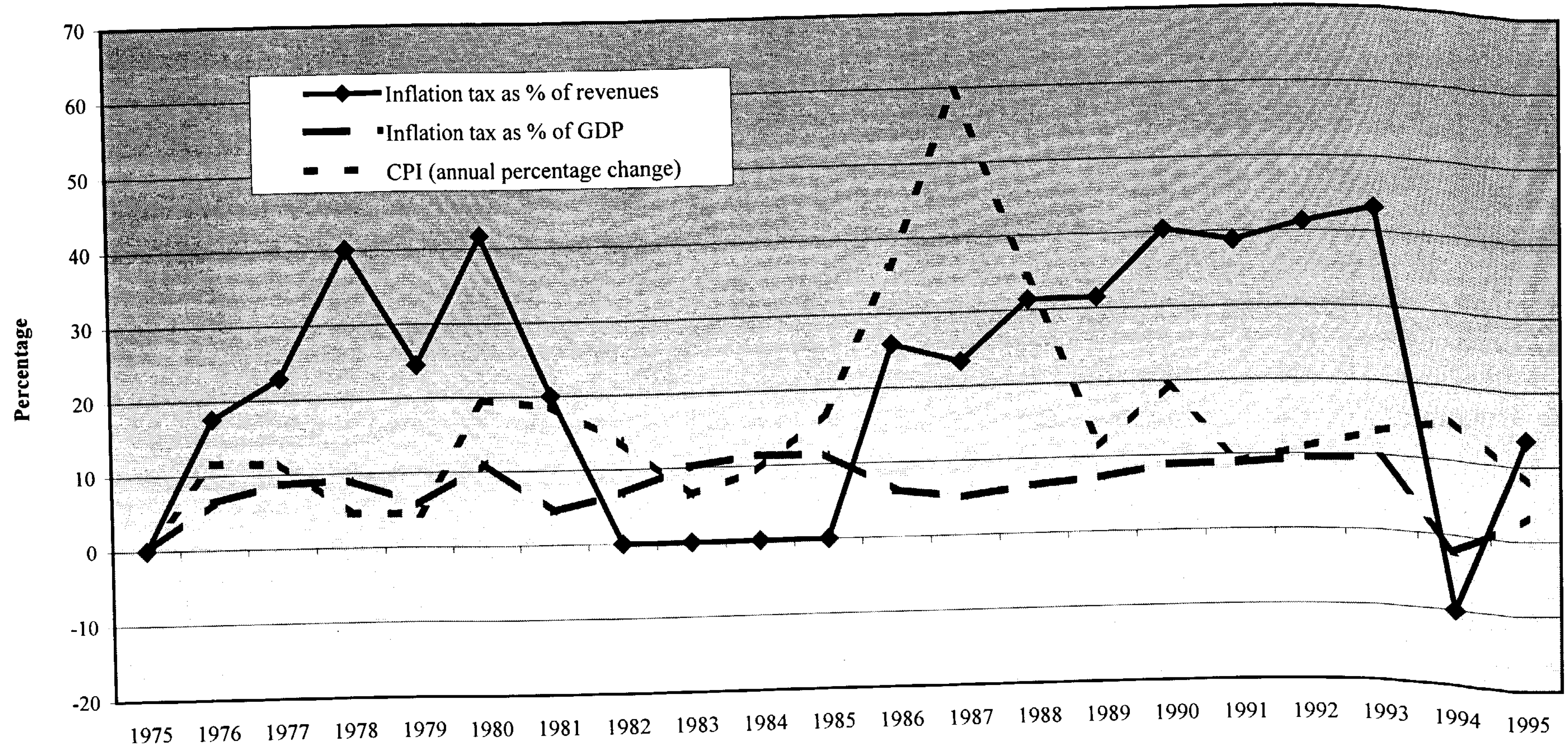
Note: Figure is based on annex table 6 of the present study.

Figure 31. Jordan: inflation tax revenues and fiscal deficits, 1975-1996



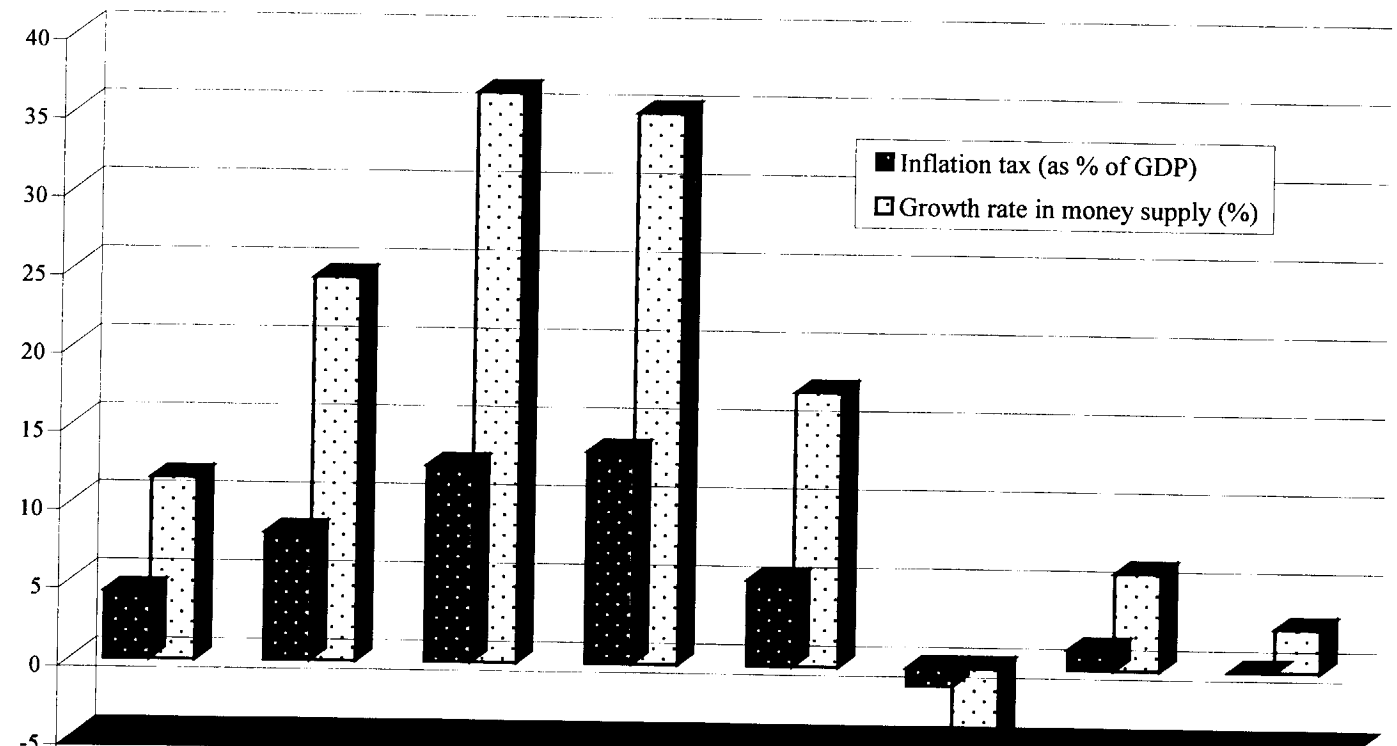
Note: Figure is based on annex table 7 of the present study.

Figure 32. Syrian Arab Republic: inflation and seigniorage, 1975-1995



Note: Figure is based on annex table 8 of the present study.

Figure 33. Yemen: inflation tax, 1991-1998



	1991	1992	1993	1994	1995	1996	1997	1st qtr. 1998
Inflation tax (as % of GDP)	4.336835329	8.157626952	12.52096491	13.52443738	5.4553515	-1.135132908	1.307929941	..
Growth rate in money supply (%)	11.61122928	24.49715205	36.39160034	35.1716291	17.48386644	-4.531200784	6.181955098	2.747964059

Note: Figure is based on annex table 9 of the present study.

TABLE 21. INFLATION TAX IN IRAQ AND YEMEN, 1991-1997

	1991	1992	1993	1994	1995	1996	1997
Iraq	40.7	30.7	24.2	25.8	15.6	..	..
Yemen	4.3	8.2	12.5	13.5	5.5	-1.1	1.3

Notes: Table is based on annex tables 9 and 11 of the present study. Inflation tax = the change in the monetary base as a percentage of nominal GDP.

2. *Price liberalization and its impact on inflation*

Inflation has remained low in most GCC countries because it has been repressed owing to the controls placed on basic consumer prices. Data on consumer prices do not reflect the true changes in the price level, since most basic goods and services such as food, education, health and utilities have long been subsidized by the State and their prices officially controlled. As table 22 indicates, this situation continues in the GCC countries despite some tentative efforts to adjust prices to reflect real market conditions.

TABLE 22. FOOD PRICES IN THE GCC COUNTRIES, 1991-1996
(1992 = 100)

Food prices	1991	1992	1993	1994	1995	1996
Bahrain	99.9	100	99.7	98.7	104.8	..
Kuwait	102.5	100	95.5	97.2	99.2	..
Oman	100.9	100	98.4	97.5	103.0	101.9
Qatar (Doha)	107.8	100	92.8	88.1	97.9	..
Saudi Arabia	96.3	100	101.3	99.7	100.2	102.3
United Arab Emirates	92.6	100	103.0	108.1	116.0	116.0

Source: ESCWA, *Statistical Abstract of the ESCWA Region*, seventeenth issue (E/ESCWA/STAT/1997/8) (Sales No. 97.II.L.10).

Price controls also existed in most of the more diversified economies until the present decade. Often these subsidies constituted a huge proportion of the government budget and contributed to budgetary deficits and fiscal imbalances, thereby exerting an indirect upward pull on inflation. Rather than provide transparent, target subsidies, many of the Governments chose to subsidize through the budget. The subsidies were often applied across the board, encompassing the entire population, including those in the higher income brackets. Until 1992, Egypt had one of the most extensive consumer subsidy systems in the world. Basic food items such as wheat flour, sugar and tea were officially distributed according to quotas imposed by the State. Bread was subsidized and was available in unlimited quantities. Egypt also controlled the consumer prices of certain other food commodities so that the sale price represented only a fraction of the cost price. Between 1980 and 1989 subsidies were equivalent to 5.6 per cent of GDP.[23]

Jordan, like Egypt and many of the other more diversified economies in the region, granted major state subsidies for basic commodities and services such as food, education, health and utilities, which helped contain prices. Another contributing reason for the low prices in many countries was the overvalued exchange rate during the 1980s. Many of the more diversified economies, including Jordan, imported most of their basic food items, but the overvalued exchange rate prevented food prices from rising since imports remained cheaper.

Within the framework of the reform programmes, many of the ESCWA member countries have undertaken not only exchange rate liberalization but also the reduction of consumer subsidies and the

[23] ESCWA, "Impact of selected macroeconomic and social policies on poverty: the case of Egypt, Jordan and the Republic of Yemen" (E/ESCWA/ED/1995/6), p. 46.

decontrol of basic commodity prices in the 1990s. In most of these countries prices have been liberalized in phases, and the continued need for relative price adjustments has contributed to inflationary pressures (see table 23). In some cases reform has entailed substantial increases in the prices of basic goods such as fuel and food (especially bread, which was heavily subsidized in almost all of the ESCWA member countries). Often these items represent a considerable share in the overall price index. In some cases the increases in prices have not been offset by decreases in the prices of other commodities, leading to an overall increase in the price level.

TABLE 23. CONSUMER PRICES FOR BASIC ITEMS IN SELECTED MORE DIVERSIFIED ECONOMIES, 1991-1996 (*1992 = 100*)

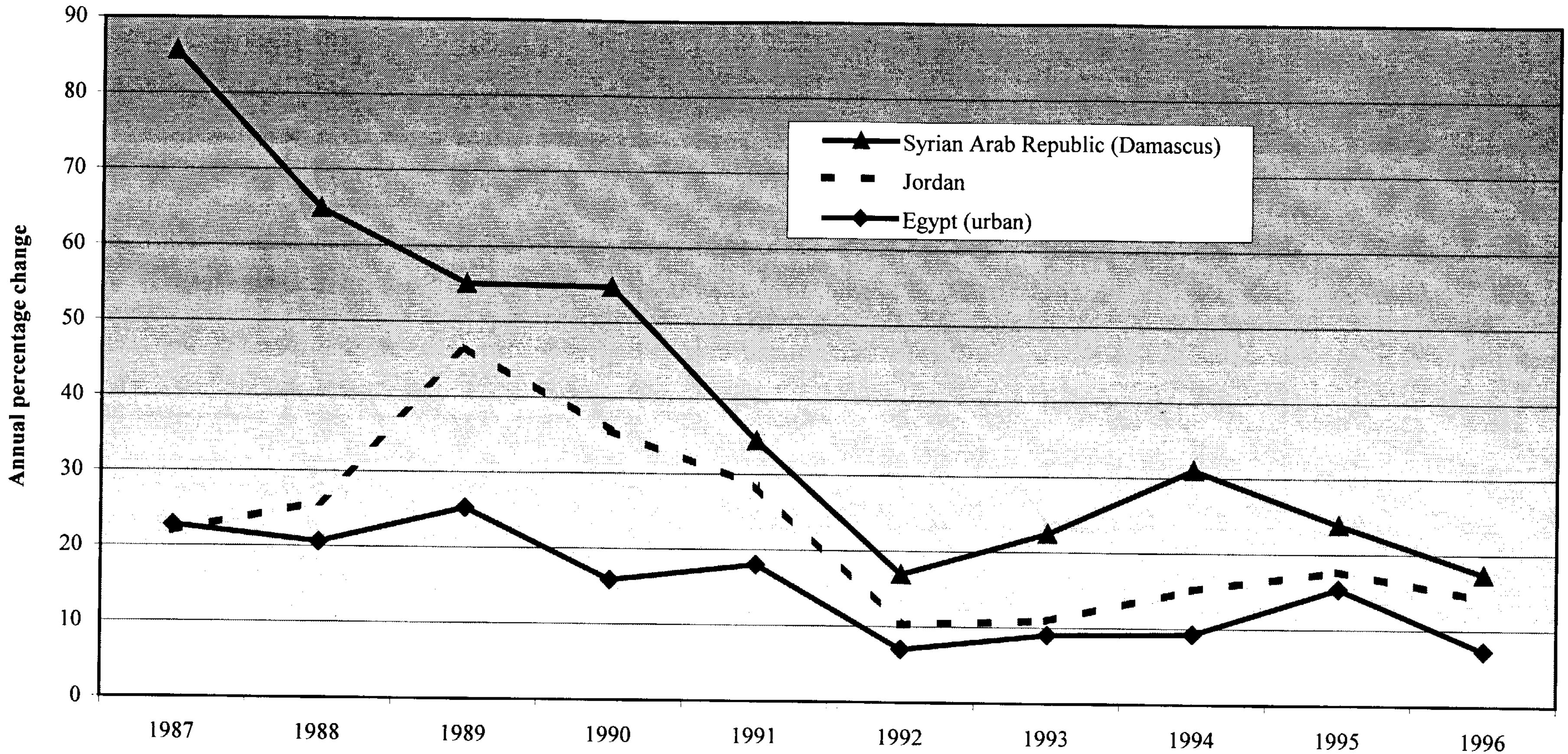
	1993	1994	1995	1996
Food prices				
Egypt	109.1	119.2	137.5	147.5
Jordan	101.9	107.9	110.4	118.0
Syrian Arab Republic	111.5	129.2	137.2	141.6
Yemen	136.3	207.6	335.1	435.7
Clothing				
Egypt	107.6	111.4	124.7	139.8
Jordan	105.3	109.1	117.3	127.0
Syrian Arab Republic	115.9	128.1	136.0	182.1
Yemen (Sana'a)	131.3	145.8	197.8	284.6
Rent/housing				
Egypt	115.3	126.3	145.3	148.7
Jordan	102.9	103.5	107.2	110.7
Syrian Arab Republic	124.3	151.4	154.1	130.6
Yemen	111.3	122.0	190.5	..

Note: Table is based on annex tables 18-20 of the present study.

As alluded to earlier, some of the more diversified economies, including Egypt and Jordan, have undertaken price liberalization as part of their economic reform programmes. Food prices increased by 18 per cent in Jordan between 1992 and 1996, and by a high 37.5 per cent in Egypt between 1992 and 1995 (see table 23). The Syrian Arab Republic, though not under a formal adjustment programme, has liberalized its prices as well; between 1992 and 1996, food prices went up by 42 per cent and clothing prices by 82 per cent. After the initial decontrol, the prices of food stabilized. Figure 34 presents the trend in food prices in Egypt, Jordan and the Syrian Arab Republic for the period 1985-1996. As the figure shows, after the initial jump, annual increases in food prices declined.

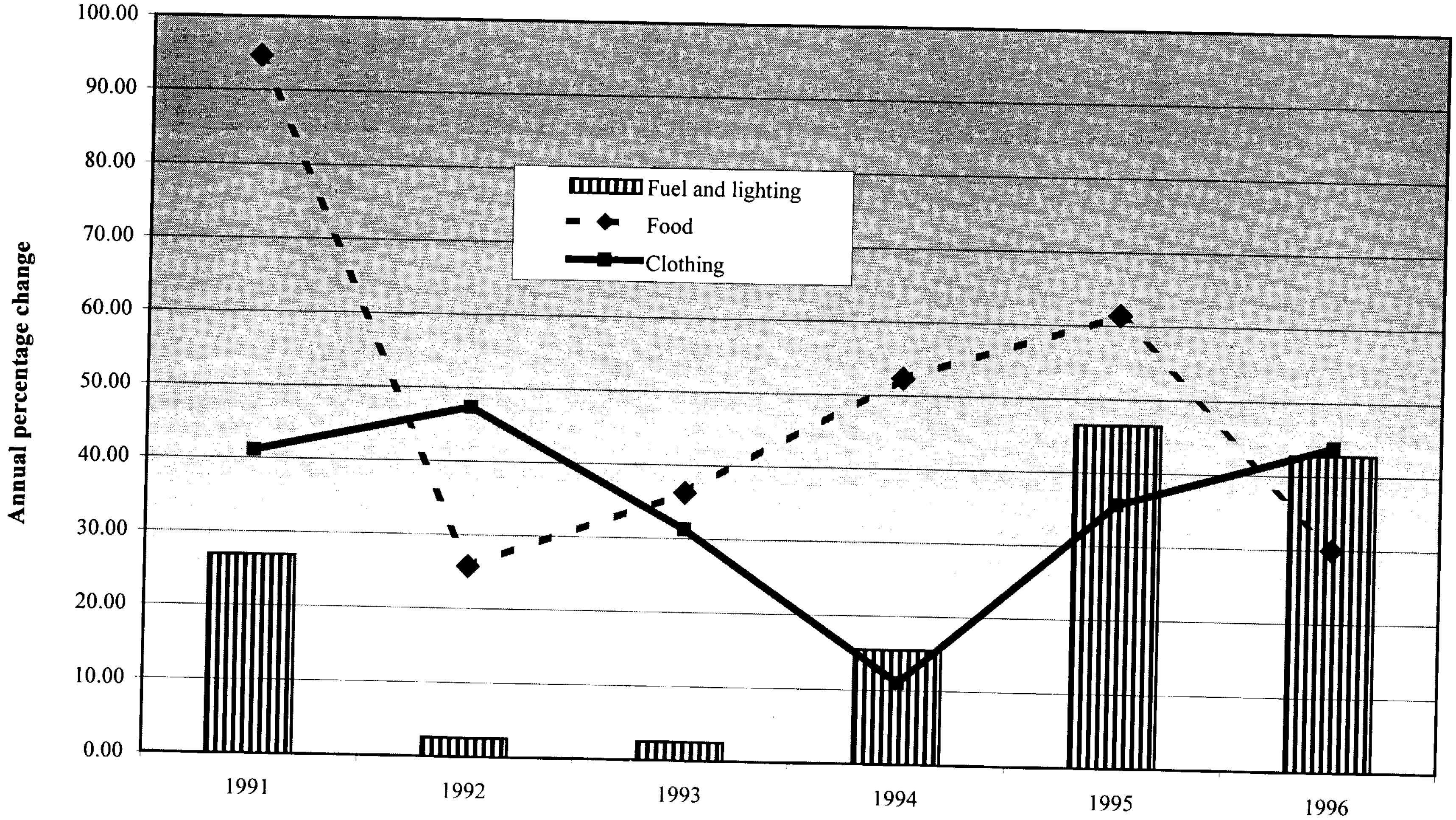
Among other factors, such as exchange rate movements, food price liberalization has affected overall inflation levels dramatically in Yemen. Between 1992 and 1996 food prices increased by more than 300 per cent in Sana'a (see table 23). The depreciation of the exchange rate and the decontrol of prices affected clothing and rent prices as well; the former rose by 184 per cent and the latter by 100 per cent during this period (see figure 35).

Figure 34. Food prices in Egypt, Jordan and the Syrian Arab Republic, 1987-1996



Note: Figure is based on annex table 17 of the present study.

Figure 35. Relative prices in Yemen, 1991-1996



Note: Figure is based on annex tables 18, 19 and 21 of the present study.

One factor contributing to the decline in inflation rates in some of the countries of the ESCWA region is the slower rate of economic growth, which has led to a decline in prices. In the West Bank and Gaza Strip, the general consumer price index declined between 1997 and 1998 (see table 24 and figure 36).

TABLE 24. RELATIVE PRICES IN THE WEST BANK AND GAZA STRIP, 1997-1998
(*percentage change*)

	West Bank and Gaza Strip		West Bank		Gaza Strip	
	1997	June 1998[a]	1997	June 1998[a]	1997	June 1998[a]
Food	4.1	6.02	1.42	5.90	3.32	8.07
Beverages and tobacco	6.86	5.7	8.28	5.44	5.08	5.26
Textiles and clothing	15.55	9.3	14.96	7.54	20.63	9.65
Housing	5.15	0.03	5.20	-0.73	7.59	2.97
Furniture and household Goods	10.1	4.0	6.75	3.62	10.04	1.97
Transport and communications	5.12	-0.85	5.01	-1.73	4.01	0.09
Education	0.65	0.76	0.68	1.20	4.51	5.85
Medical care	7.86	4.7	12.77	6.60	8.41	4.92
Recreation	7.66	2.0	8.27	0.54	13.77	2.91
Miscellaneous	4.01	-0.35	0.70	-0.80	10.81	4.37
CPI for all items	6.10	4.14	4.84	3.81	6.92	5.77

Source: UNSCO, "UNSCO report on economic and social conditions in the West Bank and Gaza Strip, spring 1998" (Gaza, 15 April 1998), p. 33; data for June 1998 are from the Palestinian Central Bureau of Statistics, "Consumer price index, revised series (June 1998)" (Ramahallah, July 1998), p. 19.

a/ June 1998 over June 1997.

E. CONFLICT AND INFLATION

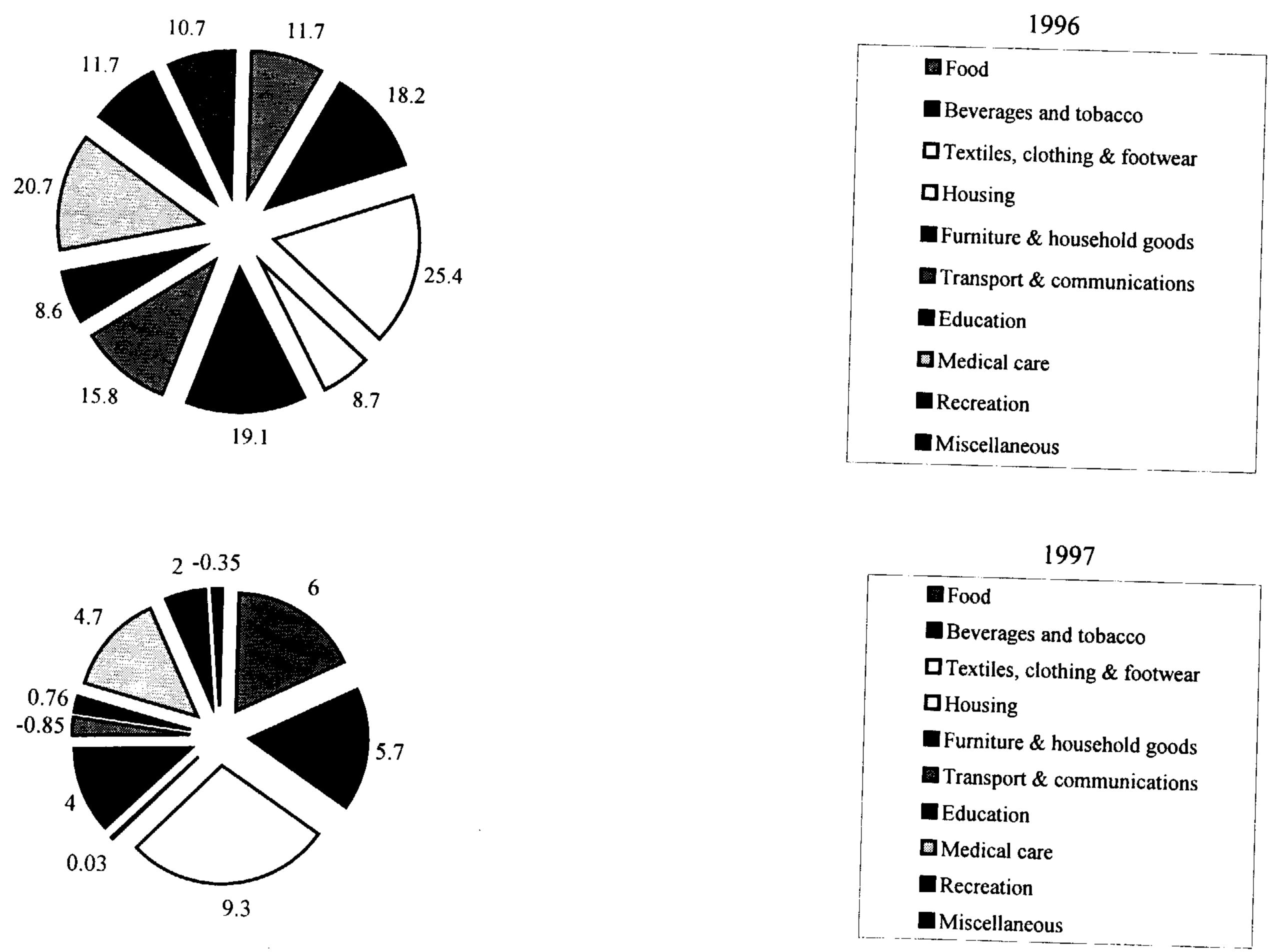
In addition to commodity price shocks, an exogenous shock to the economy can take the form of a political conflict or a war, which can have serious inflation-related repercussions. The impact of two such shocks is explored here.

The civil war in Lebanon and the Gulf war (followed by economic sanctions) in Iraq had a dramatic impact on the prices of basic items, including food. Both countries underwent periods of very high inflation during their periods of political conflict. Figure 37 shows that food prices in Lebanon and Iraq were much higher than the averages for the ESCWA region as a whole during these periods.

The civil war in Lebanon drove both the general price level and the rate of inflation up manyfold. Prices continued to rise during the first half of the 1990s, though at a much slower rate; between 1992 and 1996 the annual average increase in the general level of prices was 87 per cent. However, in the last couple of years, the annual increase has moderated in line with the general improvement in macroeconomic stability. In 1995, food prices rose only a low 2 per cent per annum in Beirut.

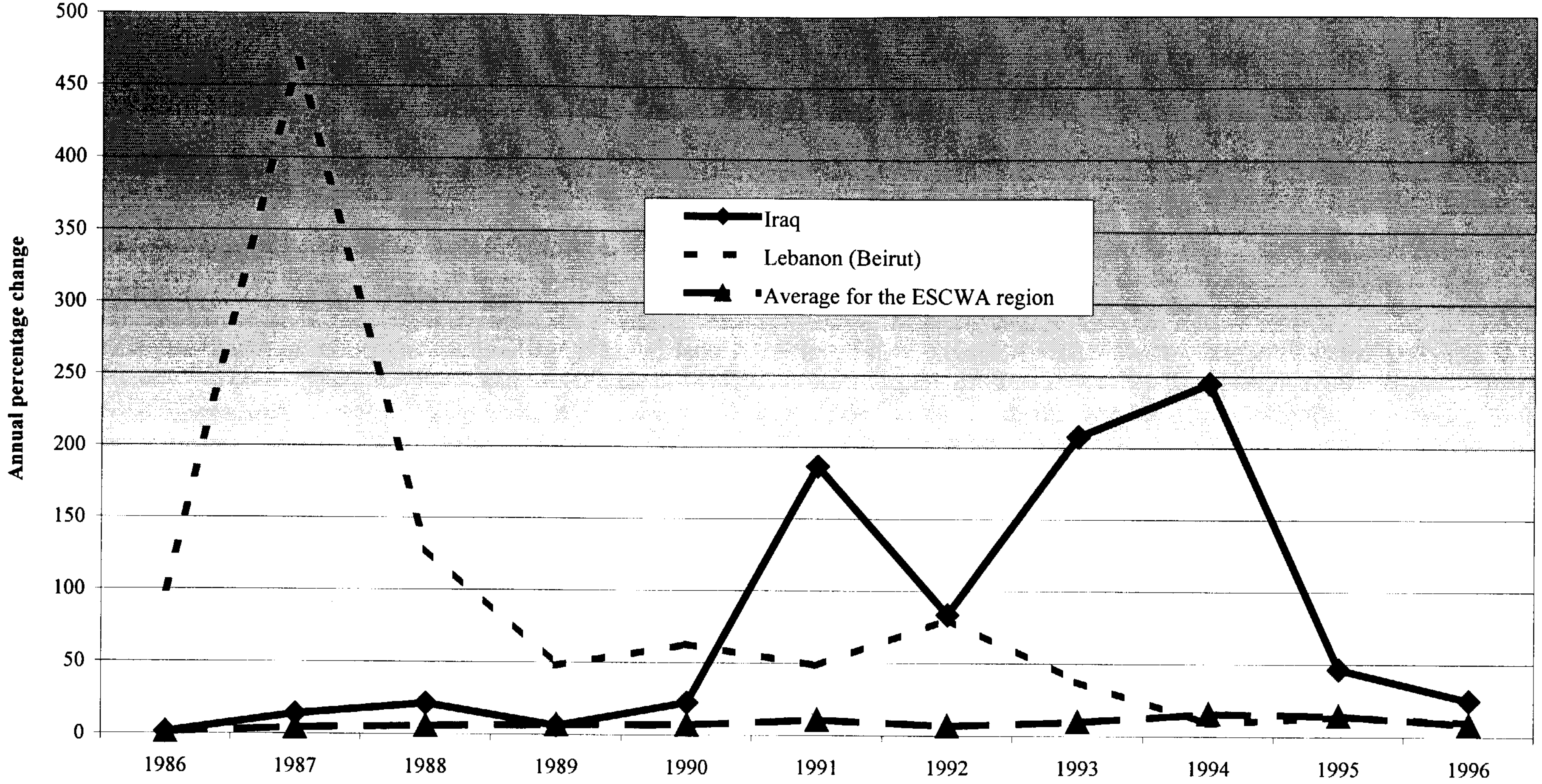
The economic sanctions and the ensuing scarcity have led to hyperinflation in Iraq. The overall price level increased by 2,000 per cent between 1992 and 1996. The most dramatic increases have been in food and clothing prices, which rose by 1,593 and 1,755 per cent respectively during the period 1992-1995 (see table 25). Since the economy has remained heavily dependent on imports, a large part of the increase in prices has been caused by the free market depreciation of the Iraqi dinar. Figure 38 illustrates the price increases for major categories during the pre-Gulf-war and post-Gulf-war periods in Iraq.

Figure 36. Relative price increases in the West Bank and Gaza Strip, 1996-1997



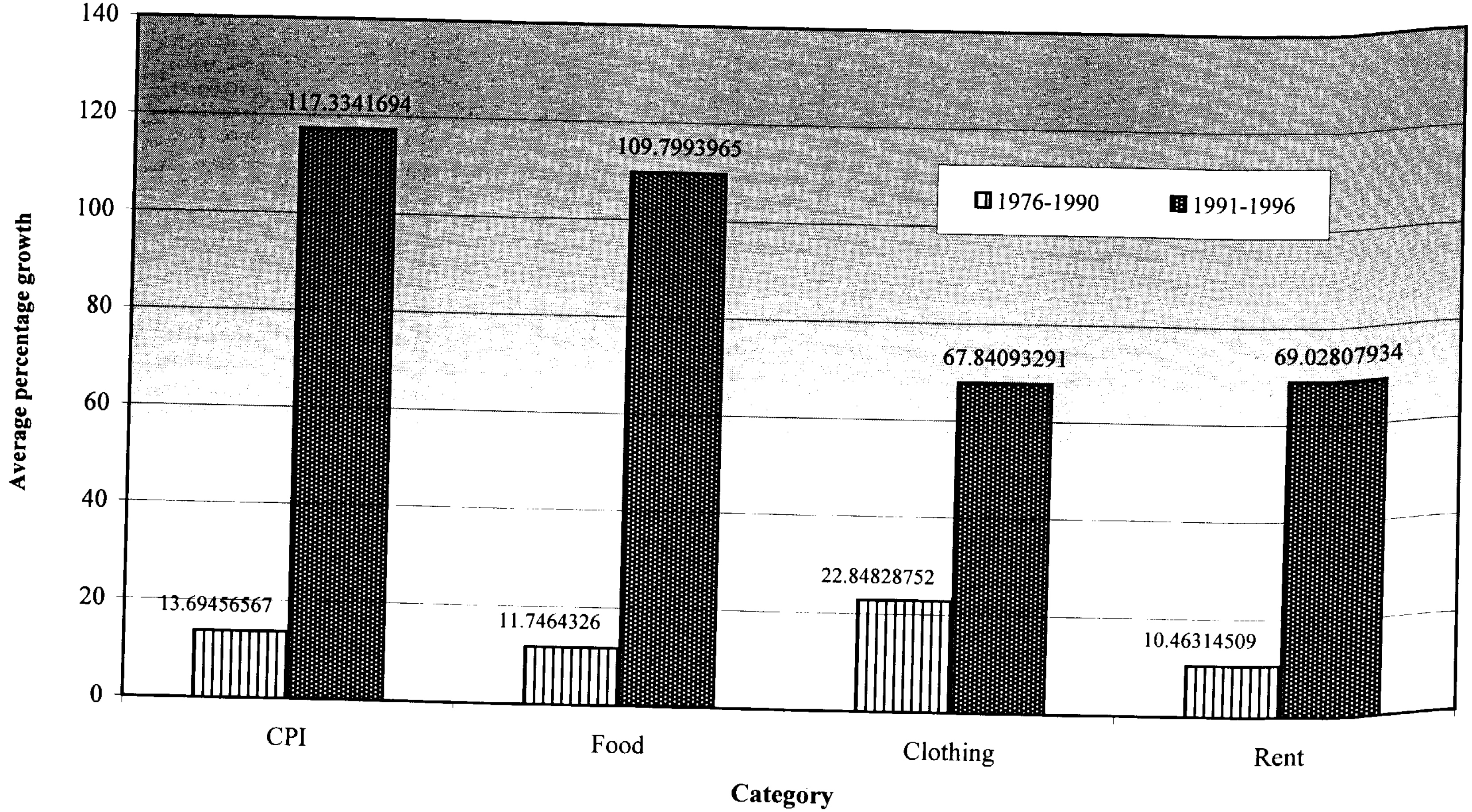
Source: Palestinian Central Bureau of Statistics, "Consumer price index, revised series (June 1998)" (Ramallah, July 1998).

Figure 37. Inflation in Lebanon and Iraq in comparison with the ESCWA regional average, 1986-1996



Note: Figure is based on annex table 21 of the present study.

Figure 38. Iraq: comparative prices, 1976-1990 and 1991-1996



Note: Figure is based on annex tables 17-20 of the present study.

TABLE 25. CONSUMER PRICE INDICES FOR BASIC ITEMS IN IRAQ, 1992-1995
(1992 = 100)

Category	1992	1993	1994	1995
Food	100	315.3	1087.7	1593.1
Clothing	100	347.4	1198.4	1755.1
Fuel and lighting	100	156.8	541.1	792.5
Rent	100	130.8	451.3	660.9
Overall price level	100	307.6	1061.3	1554.6

Source: ESCWA, *Statistical Abstract of the ESCWA Region,* seventeenth issue (E/ESCWA/STAT/1997/8) (Sales No. 97.II.L.10).

Box 5. Conflict and inflation in Iraq

The Iran-Iraq war

The two major events that exacerbated inflation in Iraq during the 1980s were its war with the Islamic Republic of Iran from 1980 to 1988 and the substantial decline in its oil earnings following the closing of the Banias oil pipeline extending through the Syrian Arab Republic.

With the outbreak of the war in 1980 oil exports through the port of Basra were brought to a halt, and one year later oil exports through the Syrian Arab Republic were stopped as well. With two of its three oil export outlets shut down, Iraq's oil proceeds dropped sharply from US$ 26.3 billion in 1980 to US$ 10.4 billion in 1981. By 1986, oil revenues had fallen to US$ 6.9 billion, or only 32 per cent of their 1979 level. This situation had important implications for Iraq, whose economy was heavily dependent on oil proceeds.

Both of these events occurred at a time when the world was experiencing an economic recession (in the early 1980s) and fluctuations in world oil prices, which translated into oil revenue volatility reductions.

The Iraq-Iran war in 1980 necessitated a radical change in the Government's economic policy as the objective of winning the war became an overriding aim. Iraq was a net creditor to a number of developing countries at the beginning of 1980, with substantial foreign exchange reserves at the International Monetary Fund, but by the end of the war it had become a debtor country, with foreign exchange borrowings amounting to some US$ 65 billion in 1988.

The war induced a drastic shift of resources away from the production of goods and services. The rapid increase in defence spending coincided not only with a sharp decline in the quantity of crude oil exported to the outside world but also with a sharp decrease in price of oil. This meant that oil revenues were going down at a time when they were badly needed to cover the cost of mobilization, a situation which compelled the Iraqi government to borrow from external sources.

The declared objectives of the authorities nevertheless remained rapid economic growth and the full employment of the labour force. This meant government expenditures on a large number of public sector projects over and above the increased military spending. Consequently, public expenditures increased by over 50 per cent in a single year, rising from ID 6,078.9 million in 1980 to ID 9,425.8 million in 1981. This substantial increase in public spending placed an additional strain on the budget, which was characterized by inelastic revenues owing to the inefficient system of taxation. This pattern continued more or less throughout the war. Afterwards, the authorities were committed to reconstructing a large number of industrial projects destroyed during the war, and borrowed extensively from the Central Bank as well as from commercial banks. The Central Bank, in turn, increased the money supply by increasing the money in circulation, thereby changing the structure of the money supply in favour of the money in circulation over short-, medium- and long-term deposits. The rapid increase in public spending and the consequent expansion in the money supply led to higher rates of inflation.

The impact of the Gulf war and economic sanctions on inflation

The inflationary trend that started in the 1970s and intensified during the 1980s was augmented in the post Gulf war period; inflationary pressures have been further exacerbated by the continuation of economic sanctions against Iraq.

Box 5 (*continued*)

The United Nations Security Council imposed severe economic sanctions on Iraq even prior to the 1991 war. Under General Assembly resolution 661 Iraq was denied the right to export its crude oil to the rest of the world. Oil revenues dropped drastically, implying a loss of around US$ 20 billion to US$ 25 billion annually, and this represented a major exogenous shock to the economy with implications for inflation. In 1992, just after the Gulf war and with the sanctions in place, oil revenues in Iraq amounted to only 3 per cent of their two-year average for 1990 and 1991 and 50 per cent of Iraq's oil earnings 30 years before in 1963.

Moreover, since the Iraqi economy was (and still is) heavily dependent on oil proceeds, the total ban on oil exports led to the almost total elimination of imports. The foreign trade sector was almost completely paralyzed as the contribution of imports to domestic production declined drastically. The unavailability of foreign currency for raw materials, semi-finished goods and final products, spare parts, machinery and equipment was like a supply shock.

The war at the beginning of 1991 devastated Iraq, as a large number of industrial sites, public utilities projects (including water supply and electric power generation stations) and military installations were destroyed. In November 1991, the Committee Assessing Human Requirements in Iraq, headed by Sadr Al-Din Agha Khan put the total cost of reconstructing the sites damaged by the war at around US$ 200 billion; US$ 13 billion would have to be allocated to the electricity sector, US$ 6 billion to the oil sector, and US$ 2.8 billion to the health and telecommunications sectors. Since there was no foreign exchange to finance reconstruction efforts, the Government had to resort to deficit financing. Throughout this period government borrowing from the Central Bank increased steadily and sharply. Consequently, the Central Bank had to steadily and very rapidly increase the money in circulation by substantial amounts. The upward surge in the money supply culminated in a substantial shift in the demand curve upward and to the right.

IV. EFFECTS OF INFLATION

Inflation has substantial economic and social costs associated with it. High inflation distorts price signals and adversely affects the allocation of resources, efficiency and economic growth. Inflation reduces not only the level of output but also the rate of output growth by reducing the investment in physical and human capital.

This chapter explores the effects of inflation on economic growth in the ESCWA member countries and examines its impact on poverty where data are available.

A. INFLATION AND OUTPUT GROWTH

Economic literature abounds with theories examining the relationship between economic growth and inflation. As mentioned before, inflation affects both the level of output and the rate of growth of output.[24] It is almost unanimously agreed that moderate and high inflation, that is, a rate of inflation higher than around 8 per cent per annum, is negatively related to growth.[25] According to some estimates a one percentage point increase in inflation reduces total output by 0.02 to 0.08 per cent. At very high rates of inflation the relationship is stronger, with inflation adversely affecting GDP growth and output. Some notable economists argue that there is a negative relationship between the two even at lower, single-digit levels of inflation.[26] Maintaining price stability is therefore imperative for any effort to achieve sustainable economic development.

1. *Inflation and output growth in the GCC countries*

The oil shocks of the past two and a half decades affected individual ESCWA member countries differently. In the GCC countries the surge in oil earnings ushered in an economic boom. Government investments in human and physical infrastructure projects surged; ports, roads, telecommunications, hospitals and schools were built at unparallelled rates during the decade of the 1970s. The limited absorptive capacity of the GCC countries allowed labour to be imported from other developing countries, enabling dollar recycling in the other ESCWA member countries. During this period, large capital flows into the GCC countries spilled over into other countries in the ESCWA region in the forms of remittances, grants and loans. The 1970s was a period of sustained growth for the region as a whole. GDP rose by an annual average of 9.2 per cent in Saudi Arabia, 10.4 per cent in Bahrain, and 12.3 per cent in Oman during the period 1976-1980 (see table 26). However, the expansionary fiscal policies propelling growth and output became closely tied to the price of oil in the region, for both the GCC countries and the more diversified economies. The 1980s was a recessionary period for most of the ESCWA member countries. As can be seen from the table, GDP growth declined, and was even negative, for most of the GCC countries. Many of the gains made during the 1970s were nullified in the 1980s.

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[24] International Monetary Fund, *World Economic Outlook, October 1996* (Washington, D.C., 1996), p. 120.

[25] Michael Bruno and William Easterly, *Inflation, Crisis and Long-Run Growth*, National Bureau of Economic Research Working Paper (1995).

[26] Stanley Fischer. "Maintaining price stability", *Finance and Development*, (International Monetary Fund, Washington, D.C., December 1996).

TABLE 26. REAL GDP GROWTH RATES IN SELECTED GCC COUNTRIES, 1976-1995
(Percentage change)

	1976-1980	1981-1985	1986-1990	1991-1995
Saudi Arabia				
GDP growth	9.2	-3.1	4.5	2.3
Bahrain				
GDP growth	10.4	-0.92	3.8	5.0
Oman				
GDP growth	12.3	15.0	3.2	5.9
Kuwait				
GDP growth	1.0	-4.4	8.1	14.6[a/]

Note: Table is based on various annex tables included in the present study.

a/ 1994-1995.

As table 27 indicates, per capita levels of disposable income declined between 1985 and 1989, falling by 26 per cent in Saudi Arabia, by 31 per cent in Oman, and by 25 per cent in Bahrain.

TABLE 27. DISPOSABLE INCOME PER CAPITA IN THE GCC COUNTRIES, 1985, 1989 AND 1994
(US dollars)

GCC countries	1985	1989	1994
Bahrain	7 977	5 988	7 387
Kuwait	12 700	13 058	13 696
Oman	6 338	4 357	4 685
Qatar	12 630	10 246	9 054
Saudi Arabia	5 745	4 229	5 442
United Arab Emirates	16 154	14 408	12 856

Source: ESCWA, *National Accounts Studies of the ESCWA Region*, No. 15 (E/ESCWA/STAT/1995/23) (Sales No. 96-II-L.1), p. 20.

Inflation has been repressed in the GCC countries so its direct impact on the standard of living is difficult to ascertain. Price controls in these countries have made inflation a non-issue since the 1980s. However, economic policy management (including price controls) has affected overall economic growth and development indirectly. Repressed inflation has its cost, since it does not send the correct signals to the market and distorts the allocation of resources, seriously affecting economic growth in the long run.

2. *Economic growth and inflation in the more diversified economies*

The effects of the oil price rises were generally adverse for the oil-importing more diversified economies. Owing to the low level of economic diversification in these countries, import price effects (the extent to which their import prices exceeded world prices) were greater than their export price effects (the extent to which their export prices exceeded world prices).[27] This was especially true for primary producing countries, which experienced a slowdown in exports owing to the world recession and the recession in the economies of their major trading partners.

[27] World Bank, *World Development Report, 1981* (New York and Oxford, Oxford University Press, August 1981), p. 66.

The commodity price shocks drove domestic consumer and producer prices up and aggregate demand and output down, especially in the oil-importing developing countries. The rise in the price of oil translated into a decline in the aggregate supply and a lower level of output, and for the oil-importing countries, the terms of trade deteriorated and disposable income and output fell. The slowdown in economic activity in the industrialized countries, and in the world as a whole, affected demand for exports from developing countries.

Economic growth is a function of the economic policy regimes adopted by individual countries. As such, the differences in inflation performance between countries has been a function of the fiscal discipline imposed and the speed with which policies have been adopted to combat inflation.

There were three ways in which the more diversified economies in the ESCWA region, and especially the oil-importing economies, could respond to the above-mentioned developments: by undertaking structural adjustment, which involved switching resources to the production of exports and import substitutes; by relying on external borrowing; and by slowing growth, which would reduce imports and improve current account deficits.

To maintain the pace of growth, most of the more diversified economies resorted to external borrowing and later to deficit financing and credit creation. The 1980s was largely a decade of recession in the ESCWA region. Structural disequilibria emerged, requiring a reallocation of resources towards more productive and efficient uses. As adjustment was postponed, external debt mounted, output fell and inflation soared. During the 1980s, there was an inverse relationship between GDP growth and inflation in the region: as inflation rose, the rate of GDP growth declined (see table 28). Figures 39 and 40 show the negative correlation between economic growth and inflation in Egypt and Jordan.

TABLE 28. REAL GDP GROWTH RATES IN SELECTED MORE DIVERSIFIED ECONOMIES, 1976-1995
(Annual average percentage change)

	1976-1980	1981-1985	1986-1990	1991-1995
Egypt	..	8.2	6.3	3.4
Jordan	12.9	4.7	-0.9	7.7
Syrian Arab Republic	6.2	3.0	1.8	6.9
Lebanon	2.3	11.0	-15.1	12.9
Yemen	..	..	..	3.9

Note: Figure is based on annex tables 6-10 of the present study.

The slowdown in GDP growth in the more diversified economies during the 1980s, particularly during the second half of the decade, is attributed to several interrelated factors. The decline in the price of oil hurt the ESCWA region especially. The rise in world interest rates in the 1980s came at a time when many of the ESCWA member countries were relying on external financing to maintain output and growth. The problems of economic management, characterized by over-regulation, price controls, inward-looking policies and unsustainable levels of government borrowing, contributed to the slowdown in output. Finally, domestic and regional conflicts such as the Lebanese civil war (1975-1991), the Yemeni civil war (1994), the Iran-Iraq war (1980-1988), and the Gulf war (1991) contributed to losses of output associated with episodes of rising inflation in these countries.

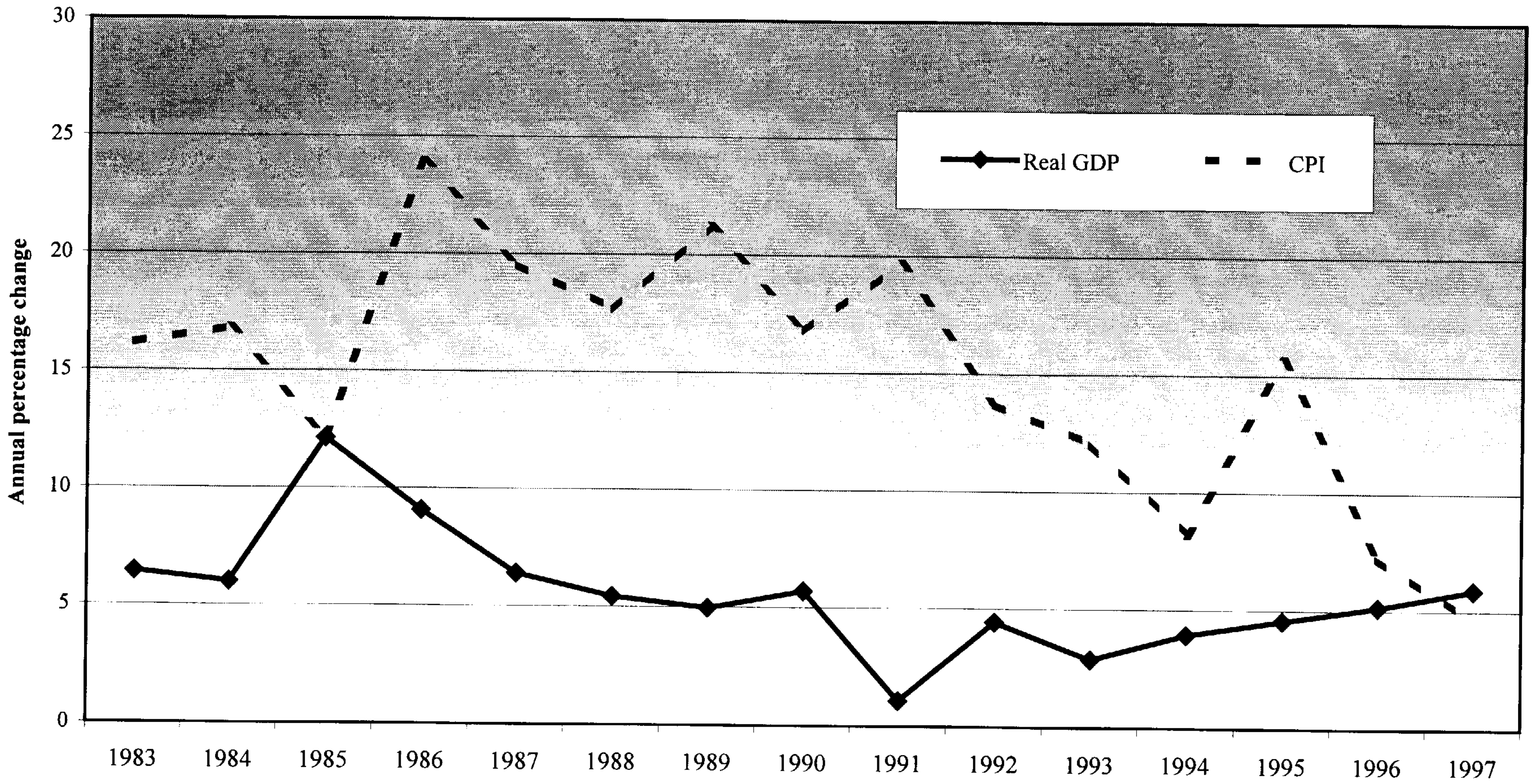
TABLE 29. REAL GDP GROWTH RATES IN LEBANON AND IRAQ, 1991-1998

	1991	1992	1993	1994	1995	1996	1997	1998
Lebanon	38.3	4.5	7.0	8.0	6.5	4.0	3.5	3.0
Iraq	-67.4	51.5	-1.2	-1.2	-81.9	2.1[a/]	25.0[a/]	15.0

Source: ESCWA, *National Accounts Studies of the ESCWA Region*, No. 18 (E/ESCWA/STAT/1998/4).

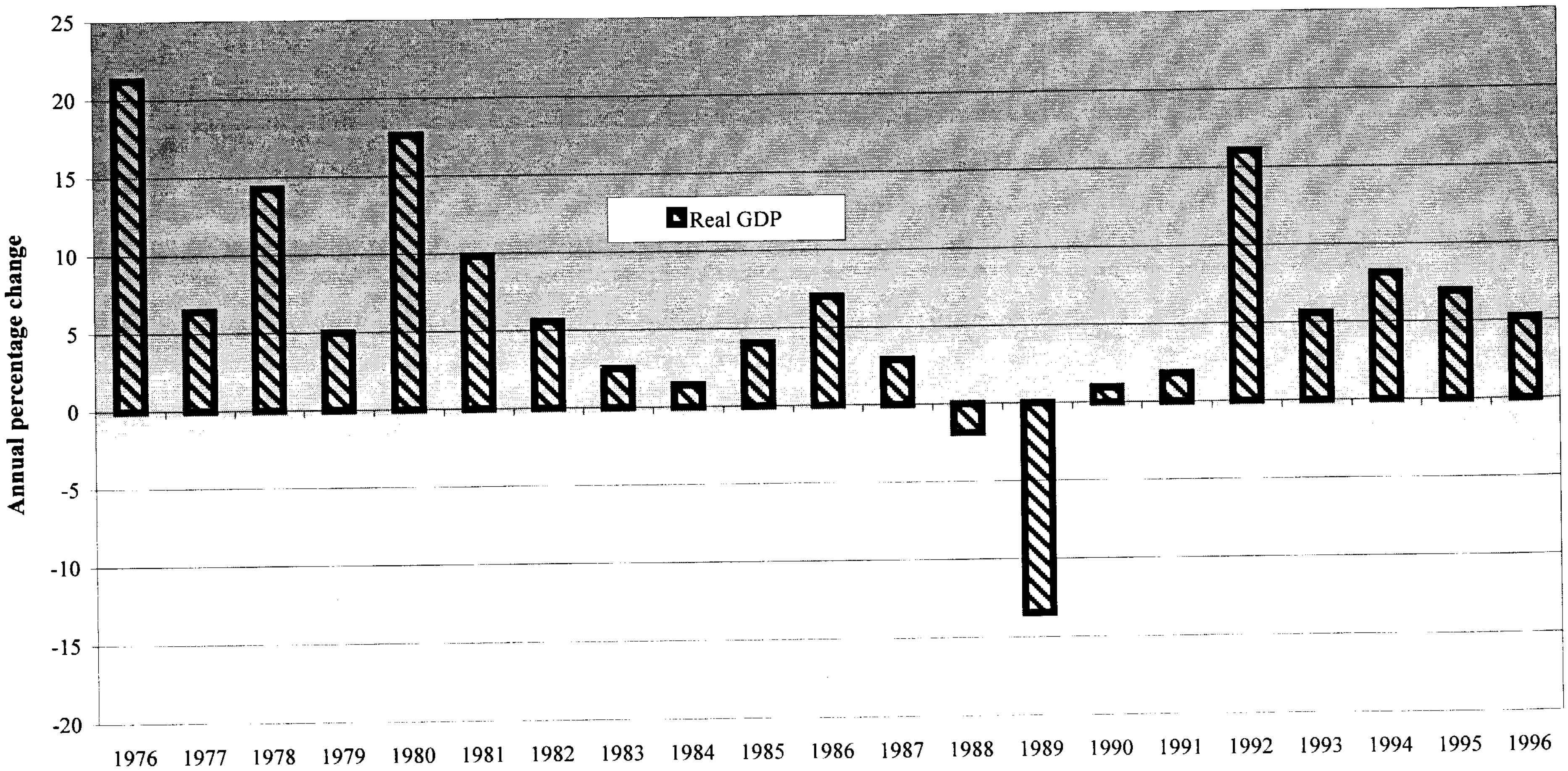
a/ ESCWA estimates.

Figure 39. Egypt: real GDP growth, 1983-1997



Note: Figure is based on annex table 6 of the present study.

Figure 40. Jordan: real GDP growth, 1976-1996



Note: Figure is based on annex table 7 of the present study.

(a) *Impact of inflation on economic growth in Iraq*

The productive capacity of the economy has been affected by two major continuing shocks.

Since oil revenues have been limited owing to the sanctions, the purchase of imported machinery, raw materials and semi-finished goods has been minimal. The agricultural sector requires modern machinery and implements, pesticides, insecticides, and high-yield seeds and crops from abroad to remain viable. Similarly, the industrial sector can do little without modern machinery, tools and equipment, high-quality raw materials and semi-finished products. The services sector is almost totally dependent on improved technology in schools, colleges and universities, and the health sector requires advanced equipment, tools and instruments as well as medicines and other basic supplies.[28] As the items needed are almost impossible to obtain, sectoral GDP levels are low. Because of the dependence of the Iraqi economy on imports from abroad, sectoral and total output levels have been virtually inelastic. With such a high rate of inflation, output would have to be inelastic, as the numerator of the elasticity of supply formula (Δ Q/Q) is very small in comparison with the denominator (Δ P/P), which represents the change in prices. The high rate of inflation has seriously affected economic growth in the past few years.[29]

In addition, the massive currency depreciation has made imports excessively expensive. Officially, the Iraqi dinar remains at 1970s and 1980s parity levels (ID 1 = US$ 3.23). In the parallel market, the exchange rate was ID 3/US$ 1 before the war, but by the end of 1995 it was ID 3,000/US$ 1—a depreciation of more than 9,000 times in three years. Such extreme currency depreciation has placed all supply inputs beyond the reach of producers and has consequently circumscribed production efforts.

Moreover, the Government has been heavily involved in subsidizing basic food items for the general population. By the end of 1995, the Government was purchasing wheat, barley, rice, corn maize, sunflower crops, and cotton and cotton seeds at very high prices and then offering them to families and individuals at much lower, highly subsidized prices. In 1995, the cost of total subsidies was 613 times that in 1990.[30] These food subsidies cost the State ID 350 billion in 1995, equal to 13 per cent of GDP.[31]

Government expenditures have surged, but the dinar's purchasing power has fallen drastically. With each successive year the Government has had to allocate increased resources to keep pace with the soaring rate of inflation. Hence, there has developed a public expenditure-inflation spiral leading to a radical annual increase in public expenditures.

It is safe to conclude that economic growth in Iraq will continue to be adversely affected as long as the sanctions remain in place.

(b) *Impact of inflation on growth in the more diversified economies*

Per capita disposable income fell in most of the more diversified economies during the 1980s (see table 30). The decline was most pronounced in Iraq, where the 1989 income figure was only one third of that recorded for 1985, mainly owing to the protracted Iran-Iraq war. Per capita disposable income fell in Jordan and the Syrian Arab Republic during this period by 40 and 32 per cent respectively. In Yemen, the only least developed country in the region, the high rates of inflation led to serious reductions in output between 1991 and 1995 (after unification). Real GDP growth averaged a modest 3.9 per cent during this period, but high levels of inflation eroded purchasing power. Further, as Yemen liberalized its exchange rate

[28] Fuad Al-Dahwi, "Inflation in Iraq: causes and effects, 1970-1998" (a paper prepared for ESCWA in November 1998).

[29] Ibid.

[30] Ibid.

[31] Ibid.

and prices in an effort to remove structural disequilibria, disposable income per capita fell drastically; in 1994 disposable income was only 38 per cent of what it had been in 1989.

TABLE 30. PER CAPITA DISPOSABLE INCOME IN THE MORE DIVERSIFIED ECONOMIES, 1985, 1989 AND 1994
(US dollars per capita)

	1985	1989	1994
Egypt	553	601	808
Iraq	1101	360	134[a/]
Jordan	2147	1318	1646
Lebanon	813	1070	2398
Syrian Arab Republic	916	618	988
Yemen	..	660[b/]	251

Source: ESCWA, *National Accounts Studies of the ESCWA Region*, No. 15 (E/ESCWA/STAT/1995/23) (Sales No. 96-II-L.1), p. 20.

a/ 1992.

b/ 1990.

Beginning in the 1990s most of the ESCWA member countries initiated major reforms aimed at improving economic growth and efficiency. A cornerstone of such reforms was providing a stable macroeconomic environment with price stability. Inflation levels declined in the 1990s with the application of these reforms, and economic growth trends were positive. GDP growth was robust in the early 1990s for most of the more diversified economies. The success of the structural reforms in Egypt and Jordan meant the resumption of growth after the lost decade of the 1980s. In Lebanon political stability brought the return of economic stability, with real GDP growth rising rapidly from the low levels recorded during the civil war period.

3. *Disinflation towards the late 1990s*

The momentum of robust growth in the early 1990s has not been maintained in the past couple of years. As a result of weaker aggregate demand, price levels fell in most ESCWA member countries in 1997 and 1998. The low output levels characteristic of the current economic climate are expected to affect inflation. This trend is expected to continue at least through 1999.

The challenge for the ESCWA member countries in the next few years, therefore, will be to adopt policies and programmes that will spur economic growth but also maintain price stability.

There are many reasons for the slower growth and lower inflation experienced towards the end of the 1990s. First, lower oil prices have led to a reduction in government spending in most countries. Second, the East Asian crisis that emerged in mid-1997 has led to a reduction in the demand for oil. Third, the slow progress of the peace process has affected regional integration and development as well as investor confidence, and therefore opportunities for rapid development.

In the ESCWA region as a whole, real GDP growth slowed down to 3 per cent in 1997 and was expected to decline further to around 0.85 per cent in 1998 (see table 31). It was believed that the lower oil prices in 1998 would, as always translate into lower rates of output and growth in the region. The slowdown contributed to a general disinflation in the price level as well.

Jordan was able to stabilize key macroeconomic parameters in a short time (between 1992 and 1997); however, contrary to expectations, GDP growth faltered in 1996. In the final data, GDP growth was revised downward from an estimated 6 per cent to 0.8 per cent for 1996 and 2.2 per cent for 1997. Among other things, there have been some exogenous factors, in particular the slow progress in the peace process,

that have had an adverse impact on the economy. Foreign direct investment has been less than anticipated, as has GDP growth. Other factors, including the sustained impact of the political decisions made during the Gulf war, continue to play a role in restricting labour flows to the GCC countries, contributing to high rates of unemployment at home and consequently a higher incidence of poverty. One other reason for the low level of inflation may be the recessionary economic climate in the region, which has placed downward pressure on wages and prices (these factors are exacerbated by exogenous factors, especially a region's political climate).

In the Syrian Arab Republic reduced oil revenues and consequently weak private consumption have exerted a downward pull on prices since 1997. A contraction in domestic demand is expected to lead to a further drop in both output and inflation levels. The West Bank and Gaza Strip is affected by the general economic slowdown in Israel and by the compression of GDP growth within the territories owing to the slow progress in the peace process.

TABLE 31. REAL GDP GROWTH IN THE ESCWA MEMBER COUNTRIES, 1996-1999
(Annual average percentage change)

	1996	1997	1998[a/]	1999[a/]
GCC countries				
Bahrain	4.17	3.07	2.21	2.50
Kuwait	2.80	2.20[a/]	-1.50	1.70
Oman	3.57	4.92[a/]	2.50	3.50
Qatar	4.81	15.50	4.40	6.50
Saudi Arabia	1.29	1.91	-0.60	2.20
United Arab Emirates	9.90	1.20[a/]	-0.80	2.00
More diversified economies				
Egypt	4.90	5.10	4.70	5.10
Jordan	0.78	2.20	1.70	2.60
Lebanon	4.00	4.00	3.80	4.50
Syrian Arab Republic	3.60	1.90	1.50	2.80
Yemen	5.64	5.19	2.00	3.50
Average for ESCWA region[b/]	3.66	3.00	0.85	2.94

Source: ESCWA, *National Accounts Studies of the ESCWA Region*, No. 18 (E/ESCWA/STAT/1998/4).

a/ preliminary estimates.

b/ Excluding Iraq and the West Bank and Gaza Strip.

Disinflation in the West Bank and Gaza Strip

The overall economic recession in the West Bank and Gaza Strip during much of the present decade can be gauged by the decline in GDP and GNP (see table 32).[32] Between 1992 and 1996 real GDP grew by only 1.7 per cent. However, GNP in 1997 was 11.9 per cent lower than the 1992 level. With the high rate of population growth, the decline in real per capita GNP amounted to 35.7 per cent; by 1997, GNP per capita in the territories had dropped to US$ 1,726, or 64 per cent of the corresponding figure for 1992.

Notwithstanding the past decline in economic activity, with the relative easing of Israeli closures there were signs of a slight pick-up in economic activity in 1997. Though revised downward, both GDP and GNP growth rates were positive. The higher-than-anticipated labour flows into Israel following the easing of closures in 1997 led to a 1 per cent increase in GDP and a 2 per cent increase in GNP. Private investment was slightly higher; construction activity increased by 13 per cent (though this remained primarily an

[32] GNP is important here, since it equals GDP plus the income transfers of the residents of the West Bank and Gaza Strip working abroad, the most important component of which is workers' earnings in Israel.

expansion in residential building), and company registration figures rose by 14.7 per cent. Bank loans to the private sector increased by a high 58.8 per cent during 1997. In the first quarter of 1998 these trends were further reinforced, as no major closures occurred. Trade and service flows to Israel, the major labour market, were up, auguring well for the build-up of economic activity. Labour flows have increased and inflation is the lowest it has been in years. However, future expectations for the West Bank and Gaza Strip economy remain closely dependent, for now, not only on the economic conditions in Israel but also on the prospects for real peace.

Slower economic growth has contributed to a decline in prices through the mechanism of weaker demand and consumer spending. In addition, though the liberalization of prices within the structural adjustment programmes in many of the more diversified economies led to higher prices in the early 1990s, there has since been a realignment; whereas the average price level is high, the annual percentage increase is moderate to low. Moreover, the progress achieved in privatization and other economic reforms in countries such as in Egypt and Jordan has led to greater competition and has exerted a downward pull on prices in most countries. In Lebanon, continued macroeconomic stability, in particular with respect to the exchange rate, has dampened inflationary pressures.

In some of the more diversified economies, however, inflationary pressures may not subside any time soon, despite best efforts at adjustment. Yemen has made considerable progress in the areas of stabilization and adjustment in the past few years, but inflationary pressures were expected to mount owing to the one-time increase in prices in June 1998 following the removal of subsidies.

TABLE 32. GDP AND GNP IN THE WEST BANK AND GAZA STRIP, 1988-1997

	1988-1992	1992	1993	1994	1995	1996	1997	Average 1992-1997	1996 over 1992
Real GDP (mn US$)	3 657.1	3 728.6	3 196.6	3 551.9	3 956.5	3 893.2	4 107.3	3 739.0	..
Real GNP (mn US$)	4 910.7	5 003.7	3 892.3	3 996.7	4 204.0	4 082.1	4 408.6	4 264.6	..
Population (thousands)	1 710.2	1 864.5	1 974.0	2 114.0	2 242.0	2 383.0	2 554.0	2 188.6	..
Per capita GDP (US$)	2 150.5	1 999.8	1 619.4	1 680.2	1 764.7	1 633.7	1 608.2	1 717.7	..
Per capita GNP (US$)	2 889.9	2 683.7	1 971.8	1 890.6	1 875.1	1 713.0	1 726.2	1 976.7	..
Annual percentage change									
Real GDP (mn US$)	..	2.0	-14.3	11.1	11.4	-1.6	5.5	2.3	4.4
Real GNP (mn US$)	..	1.9	-22.2	2.7	5.2	-2.9	8.0	-1.2	-18.4
Population (thousands)	..	9.0	5.9	7.1	6.1	6.3	7.2	6.9	27.8
Per capita GDP (US$)	..	-7.0	-19.0	3.8	5.0	-7.4	-1.6	-4.4	-18.3
Per capita GNP (US$)	..	-7.1	-26.5	-4.1	-0.8	-8.6	0.8	-7.7	-36.2

Source: Office of the United Nations Special Coordinator in the Occupied Territories, "Economic and social conditions in the West Bank and Gaza Strip, quarterly report, winter-spring 1997" (Gaza, 1 April 1997), p. 6.

B. INFLATION AND ITS IMPACT ON INCOME DISTRIBUTION AND POVERTY

The impact of inflation is not uniform across all population groups; the financial position of those with fixed incomes and those who do not hold wealth in real assets or foreign assets tends to worsen as inflation rates rise. Most in these categories fall into the lower-income group, so the impact of high prices falls disproportionately on the poor.

Price variability has a negative impact on income distribution; the higher the rate of price variability, the greater its effect on income inequality.

Egypt witnessed a rise in income inequality (as measured by the Gini coefficient) during the 1980s. As table 33 shows, between 1980/81 and 1990/91 the share of those earning the highest incomes (the top 10 per cent) increased at the expense of those with the lowest incomes (the bottom 20 per cent); the share of the rich rose from 27 to 28 per cent in urban areas and from 21 to 28 per cent in rural areas, while the share of the poor fell from 8.4 to 8.2 per cent in urban areas and from 10.2 to 9 per cent in rural areas. During the period 1989-1994, 7.6 per cent of Egypt's population lived on less than US$ 1 a day.[33]

TABLE 33. INCOME INEQUALITY IN EGYPT, 1981/82 AND 1990/91

	Urban		Rural	
Income bracket	1981/82	1990/91	1981/82	1990/91
Lowest 20%	8.40	8.21	10.22	9.01
Highest 10%	27.05	28.09	21.49	28.17
Gini coefficient	0.32	0.34	0.25	0.32

Source: ESCWA, "Impact of selected macroeconomic and social policies on poverty: the case of Egypt, Jordan and the Republic of Yemen" (E/ESCWA/ED/1995/6), p. 27.

In Jordan, income inequality increased between 1986 and 1992. Though Jordan's experience with high inflation was limited to a few years, the overall slowdown in economic growth had a particularly negative effect on those in the lowest income bracket; the income share of the bottom 20 per cent decreased from 7.3 per cent in 1986/87 to 6 per cent in 1992.[34] During the period 1989-1994, the income of the richest 20 per cent was 8.4 times that of the poorest 20 per cent.[35] The high inflation after the devaluation of the Jordanian dinar translated into a drop in purchasing power, especially among the poor. As prices for basic items were gradually decontrolled there was a dip in household consumption expenditure. Surveys conducted before and after the devaluation reveal that the poverty level in Jordan increased from 18.7 per cent in 1987 to 21.3 per cent in 1992.[36] In other ESCWA member countries the incidence of poverty, that is, the proportion of the population living below the poverty line, was in the double digits as well in 1992. Iraq had the highest rate (45 per cent) and the United Arab Emirates the lowest (3 per cent).[37]

In Lebanon, the ravages of the prolonged civil war, with high levels of inflation that eroded purchasing power, have exacerbated poverty. In 1996, a study on living conditions in Lebanon conducted by the Ministry of Social Affairs and the United Nations Development Programme (UNDP) estimated that as much as one third of the population (around 1.1 million) might be living without basic necessities, defined as heating, proper electricity and a car, and noted that 58 per cent of the "deprived" population lived in urban areas. Within this group, the proportion of families with widows, a large number of children and/or elderly members was very high.

Among the worst off in the region were the low-income groups in Iraq, the West Bank and Gaza Strip and Yemen—all countries that were struggling to deal with the adverse impact of past economic mismanagement, including periods of high inflation.

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[33] United Nations Development Programme, Human Development Report 1998 (New York and Oxford, Oxford University Press, 1998), p. 146.

[34] ESCWA, "*Impact of selected macroeconomic and social policies on poverty: the case of Egypt, Jordan and the Republic of Yemen*" (E/ESCWA/ED/1995/6), p. 29.

[35] See note 33.

[36] ESCWA, "Impact of selected macroeconomic and social policies...", p. 24.

[37] ESCWA, "Measurement of poverty" (in Arabic) (E/ESCWA/SD/1995/8/Add.1/Rev.1), p. 13.

In Yemen, the least developed country and the country with the lowest per capita income in the ESCWA region, household income in the rural areas in 1992 (where 70 per cent of the population lived) was 64 per cent of the urban household income.[38] High inflation and other factors have affected household income further as the 1990s have progressed. The economic reform programme has allowed Yemen to meet its economic targets, but the impact of the reforms on the poor has been particularly severe. In June 1998, the price liberalization programme brought an increase in the price of basic items: wheat and flour prices rose by 35 per cent, petroleum prices by 40 per cent, cooking gas prices by 25 per cent, and kerosene prices by 15 per cent.[39] This has led to civil unrest as the population has protested the increase. The most seriously affected have been the poorest of the poor. Any further increases introduced to realign prices may have to be delayed till the dividends of the reform programme are visible to the lower-income groups.

In the West Bank and Gaza Strip, the decline in inflation is partly a result of the decline in wages and overall economic growth. The effect of falling incomes is reflected in the reduction in household expenditures. Where wages are the main source of household income, the economic recession brought about by the closures has adversely affected household consumption by reducing real wages. In keeping with the trend, real wages in the West Bank and Gaza Strip declined by 5.8 per cent between 1996 and 1997, while the real expenditures of the average Palestinian household in these areas fell by 9.4 per cent.[40] Most of this decline reflected the attempts of households to reduce purchases of non-essential commodities.

In 1995 an estimated 19.1 per cent of the population in the West Bank and Gaza Strip (10.5 per cent in the former and a high 36.3 per cent in the latter) lived below the poverty line, earning an average of US$ 650 per person per year (see table 34). By 1997 the incidence of poverty had risen to 20.1 per cent (11.1 per cent in the West Bank and 40.4 per cent in the Gaza Strip).

TABLE 34. POVERTY IN THE WEST BANK AND GAZA STRIP, 1995 AND 1997
(Percentage of poor)

	1995	1997
West Bank and Gaza Strip	19.1	20.1
West Bank	10.5	36.3
Gaza Strip	11.1	40.4

Source: Office of the United Nations Special Coordinator in the Occupied Territories, "UNSCO report on economic and social conditions in the West Bank and Gaza Strip, Autumn 1998" (Gaza).

In Iraq, high inflation has had a devastating effect on the purchasing power of the population, especially those in the low- and middle-income brackets.[41]

There has been an unimaginable deterioration in the standard of living of the entire population owing to the erosion of the purchasing power of the domestic currency relative to the increase in income. For example, the salaries earned by government employees increased by 75 per cent during the period 1990-1995, but consumer prices increased by 432 times. Since income averaged US$ 3 to US$ 4 per month, the typical Iraqi family lived on 10 to 13 cents a day today.

The Government has reinforced the general subsidy programme to deal with the problems created by the erosion of the dinar's purchasing power. A rationing scheme was introduced whereby each individual

[38] ESCWA, "Impact of selected macroeconomic and social policies...", p. 30.

[39] Economist Intelligence Unit, Country Report (Yemen, third quarter 1998), p. 7.

[40] Office of the United Nations Special Coordinator in the Occupied Territories, "UNSCO report on economic and social conditions in the West Bank and Gaza Strip, Spring 1998" (Gaza, 15 April 1998).

[41] The next few paragraphs draw heavily from a background paper entitled "Inflation in Iraq: causes and effects, 1970-1998," prepared by Fuad Al-Dahwi for ESCWA in November 1998.

received a ration of basic foodstuffs including flour, rice, sugar, tea and vegetable oil, as well as some detergent, at a nominal price. However, the quantities supplied provided only around 53 per cent of the average daily calorie requirements and were therefore insufficient, by themselves, to sustain human life.

The immense depreciation of the domestic currency has led to an erosion in its function as a store of value; under the present circumstances Iraqis prefer to store goods rather than retain money deposits.

Iraq signed the Memorandum of Human Accord with the United Nations in 1996, after which the authorities began to subsidize inputs to encourage the production of meat and poultry products. Subsidizing inputs instead of final products is likely to lead to a higher elasticity of supply with respect to the subsidy offered. However, without such measures prices would have gone up at exponential rates and the rate of inflation would have been astronomical.

Before the Gulf war, the distribution of income was tilted heavily in favour of the rich at the expense of the middle- and lower-income groups. The Gulf war and its aftermath have exacerbated income inequality. A look at the 1993 family expenditures survey shows that the Lorenz curve shifted further away from the equality line in comparison with where it was in the 1988 family budget survey. The value of the Gini coefficient increased from 0.370 in 1988 to 0.508 in 1993, which implied that the gap between the higher- and the lower-income groups had widened. The base of the pyramid grew substantially larger as the middle-income and poorer groups became a single group, while the top of the pyramid became narrower and taller. In other words, a small percentage of the population possessed most of the wealth of the nation in 1993, while the remainder shared what was left.

Domestic trade was to a large extent replaced by speculation in commodities and foreign currencies. A large number of tradesmen and shopkeepers hoarded non-perishable food items, construction materials, spare parts and vehicles so that they could sell them weeks or months later for enough of a profit to sustain them. United States dollar and other foreign currency speculation became widespread; a large number of unemployed youth joined the currency speculation market in order to make ends meet.

The social implications of the effects of inflation have been substantial. One indicator of economic well-being in the Arab world is the marriage market, or more precisely, a person's ability to finance marriage expenditures. Because of the astronomical prices of appliances and durable goods relative to the income of Iraqi youth (those 20 to 30 years of age), a large percentage have postponed marriage. The net result of the collapse of the marriage market has been a sharp decline in population growth, from 3.1 per cent in the late 1980s to 1.8 per cent in 1993 and to even lower levels during the years 1995 to 1998.[42] This phenomenon will have a long-term effect on the shape of the population pyramid: in just over a decade, there is likely to be a shortage in the age group that constitutes the active labour force in relation to the elderly and young people under the age of 16.

Despite the Government's best efforts, there has been an increase in the rates of theft, corruption, and other crimes and offences. In narrow economic terms, higher government expenditures have been required to combat crime, and conscription into the police force has increased in order to limit unlawful conduct.

There has been a rapid rise in dropout rates at all levels of education. Statistical data show that dropout rates increased from 7 per cent at the primary level, 14 per cent at the intermediate level, 10 per cent at the secondary level, 16 per cent at the vocational college level, and 6 per cent at the university level in 1992 to much higher rates from 1994 onward.[43] Simply put, people can no longer afford the costs of schooling, and young people often need to work to supplement the family income. A majority of the youth are demoralized and have no ambitions for the future; they just do not care. The quality of life in Iraq as well as the quality of goods and services available in the domestic market have deteriorated tremendously.

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[42] Fuad Al-Dahwe, "*Inflation in Iraq: causes and effects, 1970-1998*" (a paper prepared for ESCWA in November 1998).

[43] Ibid.

V. CONCLUSION

A. LESSONS LEARNED FROM EXPERIENCE

The foregoing review of the rise and fall in inflation over the past 25 years indicates that inflationary peaks occurred in response to exogenous shocks to the world economic environment in the form of disruptions in the commodity markets.

Most ESCWA member countries have been only moderately affected by these disruptions. This region has fared better than other regions of the world mainly because it has been a net exporter of oil. Despite structural imbalances, most of the countries in the region have not experienced the hyperinflation or chronic inflation witnessed in the developing countries in other regions.

It is important to understand, however, that the aggregate figures for the region have masked wide variations in inflation performance over the past quarter of a century. Inflation has not been a major problem in the GCC countries, except during the few years directly following the first oil price shock, primarily because State subsidies and price controls have remained in place. The more diversified economies, however, have been subject to cyclical patterns of inflation in line with commodity price changes; in some, inflation has risen to high and unsustainable levels for varying periods of time.

Lessons learned from experience with inflation worldwide show that whereas exogenous shocks have constituted the major factor contributing to the rise in both world and developing country inflation, the major determinant of the extent of the rise in inflation in each country has been its macroeconomic policy response to each shock.

In many of the more diversified economies, economic policy responses to inflationary episodes were less than adequate. In most countries, expansionary fiscal policies provided further impetus to the inflationary environment during the 1980s. Since then, many of the more diversified economies with histories of high inflation have undertaken economic reform programmes, a cornerstone of which has been to reduce inflation and provide price stability.

These reforms have produced results: by 1997 and 1998, inflation levels in most ESCWA member countries were in the single digits and were almost at the pre-oil-shock levels of the 1970s for the first time in two and a half decades.

The decline in inflation in most of the more diversified economies in the past few years has occurred as the result of a concerted effort to bring inflation down and provide a stable macroeconomic environment. It has also been propelled by the changes in the global environment. The liberalization of trade in the region has led to greater competition, which has forced prices down. This experience characterizes Egypt and the Syrian Arab Republic in particular.

Jordan is the paramount success story in the ESCWA region in terms of the management of inflation. Whereas all ESCWA member countries managed price stability through price controls and basic consumer subsidies, most underwent inflationary periods when some of these controls were dismantled. Among the more diversified economies, Jordan stands out in terms of the effective and conjunctive use of monetary and fiscal policies to prevent inflation from rising.

Inflation was, on average, lower in Jordan than in Egypt and the Syrian Arab Republic during the entire period from 1980 to 1997. Inflation (as measured by consumer prices) in Jordan has remained in the single digits for all but 6 of the past 25 years; in the past 16 years inflation has risen into the double digits only twice (in 1988 and 1990, when Jordan devaluated its currency). Economic management has employed monetary and fiscal policies conjunctively for inflation control. This coordination of economic policies has reduced the time

lags in price and wage adjustments and has effectively dampened inflationary trends. Among the more diversified economies, the rate of inflation in Jordan remained one of the lowest in the mid-1990s.

Lessons learned from experience underscore the importance of combating inflation before it poses a serious problem. Countries that have witnessed inflation in the past 25 years have become better acquainted with its associated costs in terms of economic growth; it is now far better understood by the countries of the region that the short-term costs of maintaining inflation are likely to be smaller, in terms of its effect on output and unemployment, than the long-term costs of double-digit inflation. More importantly, the experiences of the ESCWA member countries underline the importance of using monetary and fiscal policies in conjunction with one another to combat inflation.

B. RECOMMENDATIONS

The major challenge for the ESCWA member countries for the future is to develop and implement policies and programmes that revitalize economic growth and development while providing macroeconomic stability within the globalized world economy.

With new and emerging realities reshaping economic paradigms and the reinforced role of the free market enterprise, the cornerstone of the development regimes should remain the effort towards establishing and maintaining a stable macroeconomic environment, including price stability.

The impact of the East Asian crisis has already been felt by the world's economies, as world output and growth have slowed down. By contributing to weakening demand in many countries it has effected a downward pull on world inflation since 1997; in fact, there is some concern about the possibility of a world disinflationary period. How much of the impact of the crisis can be warded off in the coming years will depend on the extent of the fiscal stimulus provided by the industrialized economies. In any case, the slowdown will make economic choices more difficult for the ESCWA member countries.

The low oil prices, coupled with the weaker demand for oil among the East Asian economies, continues to exert a disinflationary pull on the economies of ESCWA members. Most of the member countries saw growth rates decline in 1997 and 1998. While this has helped maintain inflation levels, it has also heightened concerns about an economic slowdown.

Financial capital flows to the region, especially foreign direct investment (FDI) flows, which were already relatively small, have slowed down. Investor confidence has taken a beating in East Asia and is likely to take some time to return for new and emerging markets. The slow progress of the peace process is also likely to continue to affect investor confidence in the region. It should be acknowledged that the issue of peace will remain an important one in terms of its relation to overall economic development, and in terms of its contribution to maintaining price stability in the region.

A more important issue has become how to maintain economic growth in the ESCWA member countries while also maintaining price stability.

For the GCC countries, maintaining economic growth and price stability will require the continuation of structural reforms, with greater emphasis on private sector participation, trade reform and reinforcing export diversification efforts.

For more diversified economies, such as Egypt, Jordan and the Syrian Arab Republic, a consolidation of economic reform programmes will be necessary in the near future. To stimulate private investment, financial sector reforms must be strengthened and the regulatory framework revised. There is a need to exercise caution to ensure that budgetary imbalances do not get out of control; further progress towards fiscal consolidation is necessary, especially in the Syrian Arab Republic.

In Lebanon inflation has been brought under control, primarily owing to the establishment of a stable macroeconomic regime, and especially to the maintenance of exchange rate stability; however, deficit reduction must continue to form a major component of the inflation control strategy. Unless monetary and fiscal policies are used conjunctively, long-term benefits in terms of sustained progress with regard to inflation will be hard to achieve.

In the West Bank and Gaza Strip, the politics of the peace process constitute the major factor influencing economic growth and development. The impending opening of the free passage between the Gaza Strip and the West Bank and the recent opening of the newly constructed airport in Gaza will allow Palestinians to mitigate the effect of border closures. Progress in the peace process would bring greater investor confidence, the increased use of domestic capacity, and higher employment rates, and would also stimulate regional and international trade. These will be the challenges for the Palestinian Authority in the near future.

Iraq and Yemen remained the only ESCWA member countries with more than single-digit inflation levels in 1998. In Yemen, a good beginning has been made towards economic stabilization and adjustment; the major challenge is to continue with the economic recovery programme. A cornerstone of economic reform programme will be to further reduce inflation levels while protecting the poor from the negative effects of the adjustments. Inflation in Iraq is a special problem stemming from global political exigencies and the economic conditions in the country. The inflation situation in Iraq is the most serious in the region, especially for the poor.

Special recommendations for Iraq

The continuation of triple-digit inflation levels in Iraq could have serious political, economic and social implications in the long run. A commitment should be made to reduce inflation, primarily through the conjunctive and effective use of both monetary policies and fiscal policies.

Within the framework of fiscal policy, tax reform measures should be undertaken with the objective of establishing an equitable and efficient system of taxation. Tax collection should be improved, the pervasive exemptions should be removed, and most of the tax burden should be borne by those with higher incomes. In the meantime, subsidies should be expanded to reduce the impact of inflation.

Finally, the lifting of the sanctions would contribute greatly to Iraq's ability to provide goods and services domestically. However, there must be a commitment by the people to rebuild the country. One major problem that is likely to persist for some time relates to the competitiveness of the Iraqi economy, as the technology currently in use in the country has become obsolete. The Iraqi market could well be invaded by goods from outside that are priced lower than those that would be produced domestically. Therefore, after the sanctions are lifted, abundant foreign exchange resources should be allocated to modernizing the industry, agriculture and services sectors so that the commodities produced locally can compete with similar goods produced abroad.

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ANNEX TABLES

ANNEX TABLE 1. SAUDI ARABIA: KEY ECONOMIC INDICATORS, 1973-1995

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
GDP 1990 prices (bn riyals)	220.5	221.1	240.2	276.5	292.9	312.5	344.1	371.4	377.5	336.9	336.5	329.1	315.8
Real GDP growth rate (%)	15.1	0.3	8.6	15.1	5.9	6.7	10.1	7.9	1.7	-10.7	-0.1	-2.2	-4.1
Population (million)	6.8	7.0	7.3	7.6	8.1	8.5	8.9	9.4	9.8	10.3	11.2	12.0	12.7
Real GDP/capita (riyals)	32622.8	31723.1	33129.7	36283.5	36342.4	36809.2	38533.0	39632.9	38481.1	32871.2	30128.9	27469.9	24960.5
Real GDP/capita (US$)	8801.3	8936.1	9385.2	10278.6	10368.7	11103.8	11451.1	11919.7	11268.3	9569.5	8620.6	7683.9	6847.9
Real GDP/capita growth rate (%)	..	1.5	5.0	9.5	0.9	7.1	3.1	4.1	-5.5	-15.1	-9.9	-10.9	-10.9
Exchange rate (riyals/US$)	3.707	3.550	3.530	3.530	3.505	3.315	3.365	3.325	3.415	3.435	3.495	3.575	3.645
GDP deflator 1990 =100	45.0	63.1	68.5	74.2	77.0	79.9	112.1	140.2	139.0	123.2	110.5	106.8	99.4
GDP deflator growth rate (%)	112.8	40.2	8.5	8.3	3.7	3.8	40.4	25.0	-0.8	-11.3	-10.3	-3.4	-6.9
CPI[b/]	40.8	49.5	66.6	87.6	97.6	96.1	97.8	101.6	104.4	105.5	105.7	104.0	100.8
CPI (annual percentage change)	16.5	21.3	34.5	31.5	11.4	-1.5	1.8	3.9	2.8	1.1	0.2	-1.6	-3.1
WPI	..	..	..	..	..	..	..	..	..	..	..	..	77.1
WPI (annual percentage change)	..	..	..	..	..	..	..	..	..	..	..	..	..
Money (bn riyals)	5.3	7.3	14.2	24.3	38.4	49.2	54.7	59.0	73.0	83.8	84.9	83.0	81.8
Growth rate in money (%)	39.9	38.6	93.5	71.2	58.3	28.1	11.2	7.8	23.8	14.8	1.4	-2.3	-1.4
Domestic credit (bn riyals)	-9.5	-40.4	-82.7	-115.1	-122.6	-97.5	-82.1	-145.4	-277.5	-280.6	-246.5	-199.2	-172.5
Net domestic credit (annual change)	-3.1	-31.0	-42.3	-32.4	-7.5	25.1	15.4	-63.3	-132.1	-3.1	34.1	47.3	26.7
Growth rate in credit (%)	40.2	327.3	104.5	39.2	6.5	-20.5	-15.8	77.1	90.9	1.1	-12.2	-19.2	-13.4
Net foreign assets (bn riyals)	18.0	78.9	138.2	184.3	214.9	203.5	216.8	311.6	476.1	528.0	493.6	451.5	379.8
Change in net foreign assets	..	60.9	59.3	46.1	30.6	-11.4	13.3	94.8	164.6	51.8	-34.4	-42.1	-71.7

ANNEX TABLE 1 (*continued*)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1976-1980	1981-1985	1986-1990	1991-1995
GDP 1990 prices (bn riyals)	333.3	328.7	353.6	354.2	392.0	424.9	436.7	434.0	436.2	438.2	319.5	339.2	352.4	434.0
Real GDP growth rate (%)	5.6	-1.4	7.6	0.2	10.7	8.4	2.8	-0.6	0.5	0.5	9.2	-3.1	4.5	2.3
Population (million)	13.4	13.6	14.0	14.4	14.9	16.5	16.8	17.1	17.5	17.9	8.5	11.2	14.1	17.2
Real GDP/capita (riyals)	24949.1	24153.6	25220.4	24548.2	26361.1	25765.9	25965.5	25348.1	24996.0	24509.5	37520.2	30782.3	25046.5	25317.0
Real GDP/capita (US$)	6662.0	6449.5	6734.4	6554.9	7039.0	6880.1	6933.4	6768.5	6674.5	6544.6	11024.4	8798.0	6688.0	6760.2
Real GDP/capita growth rate (%)	-2.7	-3.2	4.4	-2.7	7.4	-2.3	0.8	-2.4	-1.4	-1.9	4.9	-10.4	0.6	-1.4
Exchange rate (riyals/US$)	3.745	3.745	3.745	3.745	3.745	3.745	3.745	3.745	3.745	3.745	3.4	3.5	3.7	3.7
GDP deflator 1990=100	81.3	83.8	80.6	87.8	100.0	104.0	105.7	102.3	103.2	107.1	96.7	115.8	86.7	104.4
GDP deflator growth rate (%)	-18.2	3.0	-3.8	8.8	14.0	4.0	1.5	-3.2	0.9	3.8	16.2	-6.6	0.8	1.4
CPI[a]	97.6	96.1	97.0	98.0	100.0	104.9	104.8	105.9	106.5	111.7	96.1	104.1	97.7	106.8
CPI (annual percentage change)	-3.2	-1.5	0.9	1.0	2.0	4.9	-0.1	1.0	0.6	4.9	9.4	-0.1	-0.1	2.3
WPI	80.0	85.7	97.2	98.3	100.0	103.0	104.4	105.0	106.9	114.6	..	77.1	92.2	106.8
WPI (annual percentage change)	3.8	7.1	13.4	1.1	1.7	3.0	1.4	0.6	1.8	7.2	..	..	5.4	2.8
Money (bn riyals)	86.3	90.5	93.4	91.4	101.9	120.0	123.5	121.5	125.6	124.5	45.1	81.3	92.7	123.0
Growth rate in money (%)	5.4	4.9	3.2	-2.2	11.6	17.7	2.9	-1.6	3.4	-0.9	35.3	7.3	4.6	4.3
Domestic credit (bn riyals)	-59.2	3.9	33.6	56.7	56.3	74.9	106.7	125.5	..	..	-112.5	-235.3	18.3	102.4
Net domestic credit (annual change)	113.3	63.1	29.7	23.1	-0.4	18.6	31.8	18.8	..	..	-12.5	-5.4	45.8	23.1
Growth rate in credit (%)	-65.7	-106.6	759.3	68.8	-0.7	33.0	42.5	17.6	..	..	17.3	9.4	131.0	31.0
Net foreign assets (bn riyals)	348.6	334.3	318.8	310.9	305.5	300.0	287.9	267.4	..	..	226.2	465.8	323.6	285.1
Change in net foreign assets	-31.3	-14.3	-15.4	-7.9	-5.4	-5.5	-12.1	-20.5	-267.4	0.0	34.7	13.6	-14.9	-61.1

Source: International Monetary Fund, *International Financial Statistics Yearbook, 1997* (Washington, D.C., 1997); fiscal data are from ESCWA, *Statistical Abstract of the ESCWA Region* (various issues).

a/ Before 1979 the index is based on 1970 weights and covers Riyadh only; for the period 1979-1995 the index covers the middle-income population of 10 cities.

ANNEX TABLE 2. BAHRAIN: KEY ECONOMIC INDICATORS, 1975-1996

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
GDP at current prices (mn dinars)	425.9	593.5	770.0	907.6	1018.2	1158.1	1303.9	1370.8	1440.4	1483.5	1373.1	1147.7	1166.1
GDP at 1990 prices	817.9	1012.0	1160.8	1255.1	1241.0	1322.5	1234.6	1141.9	1238.7	1285.9	1250.4	1265.1	1289.3
GDP deflator	52.1	58.6	66.3	72.3	82.0	87.6	105.6	120.0	116.3	115.4	109.8	90.7	90.4
Real GDP growth rate (%)	..	23.7	14.7	8.1	-1.1	6.6	-6.6	-7.5	8.5	3.8	-2.8	1.2	1.9
Population (million)	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.5
Real GDP/capita (dinars)	3145.8	3892.3	3869.3	3922.2	3760.6	3889.7	3527.4	3086.2	3176.2	3297.2	3049.8	2875.2	2802.8
Real GDP/capita (US$)	7953.8	9839.0	9778.6	10122.8	9855.0	10317.4	9381.5	8208.1	8447.3	8769.2	8111.1	7647.0	7454.4
Real GDP/capita growth rate (%)	..	23.7	-0.6	1.4	-4.1	3.4	-9.3	-12.5	2.9	3.8	-7.5	-5.7	-2.5
Exchange rate (US$/dinar)	2.5	2.5	2.5	2.6	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Nominal effective exchange rate	..	..	..	..	101.0	101.4	110.5	121.2	127.2	134.8	139.2	118.4	106.7
Real effective exchange rate	..	..	..	..	..	130.7	144.6	162.0	168.0	171.9	167.0	136.1	117.6
CPI 1990=100	46.9	57.5	67.6	78.3	80.0	83.1	92.6	100.8	103.8	104.1	101.4	99.1	97.3
GDP deflator	52.1	58.6	66.3	72.3	82.0	87.6	105.6	120.0	116.3	115.4	109.8	90.7	90.4
GDP deflator growth rate	..	12.5	13.1	9.0	13.4	6.8	20.5	13.6	-3.1	-0.8	-4.9	-17.4	-0.3
CPI annual percentage change	16.1	22.6	17.6	15.8	2.2	3.9	11.4	8.9	3.0	0.3	-2.6	-2.3	-1.8
Money (mn dinars)	77.8	127.9	152.5	171.3	186.1	192.2	248.8	222.9	207.3	208.3	219.0	211.5	218.9
Growth rate in money	..	64.5	19.2	12.4	8.6	3.3	29.4	-10.4	-7.0	0.4	5.2	-3.4	3.5
Interest (deposit) rate	..	6.5	6.5	6.5	6.8	7.9	9.0	8.6	7.0	7.0	6.7	5.6	5.0
Deficit/surplus (including grants)	0.0	-36.2	-12.9	-30.6	68.0	110.8	32.1	-96.2	-23.0	13.7	-51.9	-122.2	49.0
Memorandum:													
Deficit/surplus as % of GDP	0.0	-6.1	-1.7	-3.4	6.7	9.6	2.5	-7.0	-1.6	0.9	-3.8	-10.6	4.2

ANNEX TABLE 2 (*continued*)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1976-1980	1981-1985	1986-1990	1991-1995
GDP at current prices (mn dinars)	1280.5	1374.1	1506.3	1594.8	1666.8	1747.6	1827.4	1900.2	2015.8	889.5	1394.3	1294.9	1747.4
GDP at 1990 prices	1405.6	1439.7	1506.3	1574.9	1697.7	1837.8	1881.1	1921.9	1981.4	1198.3	1230.3	1381.2	1782.7
GDP deflator	91.1	95.4	100.0	101.3	98.2	95.1	97.1	98.8	101.7	73.4	113.4	93.5	98.1
Real GDP growth rate (%)	9.0	2.4	4.6	4.6	7.8	8.3	2.4	2.2	3.1	10.4	-0.9	3.8	5.0
Population (million)	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.3	0.4	0.5	0.5
Real GDP/capita (dinars)	2990.6	2938.2	3012.6	3088.0	3264.8	3403.3	3359.1	3257.5	3302.3	3866.8	3227.3	2923.9	3274.5
Real GDP/capita (US$)	7953.9	7814.3	8012.3	8212.9	8683.1	9051.5	8933.9	8663.5	8782.9	9982.6	8583.5	7776.4	8709.0
Real GDP/capita growth rate (%)	6.7	-1.8	2.5	2.5	5.7	4.2	-1.3	-3.0	1.4	4.8	-4.5	-0.2	1.6
Exchange rate (US$/dinar)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.6	2.7	2.7	2.7
Nominal effective exchange rate	100.7	104.9	100.0	100.3	98.5	103.8	101.7	96.8	99.1	101.2	126.6	106.1	100.2
Real effective exchange rate	108.1	109.3	100.0	96.6	91.9	96.6	93.3	88.1	88.6	130.7	162.7	114.2	93.3
CPI 1990=1000	97.6	99.1	100.0	100.8	100.6	103.1	104.0	106.8	106.6	73.3	100.5	98.6	103.1
GDP deflator	91.1	95.4	100.0	101.3	98.2	95.1	97.1	98.8	101.7	73.4	113.4	93.5	98.1
GDP deflator growth rate	0.8	4.7	4.8	1.3	-3.1	-3.2	2.1	1.8	2.9	11.0	5.1	-1.5	-0.2
CPI annual percentage change	0.3	1.5	0.9	0.8	-0.2	2.5	0.9	2.7	-0.2	12.4	4.2	-0.3	1.3
Money (mn dinars)	216.6	211.6	258.6	262.9	298.7	314.9	302.5	283.3	290.9	166.0	221.2	223.4	292.5
Growth rate in money	-1.0	-2.3	22.2	1.7	13.6	5.4	-3.9	-6.4	2.7	21.6	3.5	3.8	2.1
Interest (deposit) rate	5.5	7.3	..	..	3.6	3.0	4.0	5.7	5.2	6.8	7.7	5.9	4.1
Deficit/surplus (including grants)	-115.8	-103.1	-115.1	-1.9	-58.3	-126.6	0.0	0.0	0.0	19.8	-25.1	-81.4	-37.4
Memorandum:													
Deficit/surplus as % of GDP	-9.0	-7.5	-7.6	-0.1	-3.5	-7.2	0.0	0.0	..	1.0	-1.8	-6.1	-2.2

Source: International Monetary Fund, *International Financial Statistics Yearbook, 1997* and *International Financial Statistics, August 1998* (Washington, D.C., 1997 and August 1998 respectively).

ANNEX TABLE 3. KUWAIT: KEY ECONOMIC INDICATORS, 1975-1996

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
GDP at 1985 prices (mn dinars)	8207.0	8749.0	8535.0	9153.0	10409.0	8289.0	6721.0	5931.0	6401.0	6737.0	6450.0	7003.0	7573.0
Real GDP growth rate (%)	..	6.6	-2.4	7.2	13.7	-20.4	-18.9	-11.8	7.9	5.2	-4.3	8.6	8.1
Population (million)	1.0	1.1	1.1	1.2	1.3	1.4	1.4	1.5	1.6	1.6	1.7	1.8	1.9
Real GDP/capita (dinars)	8125.7	8176.6	7486.8	7564.5	8069.0	6050.4	4700.0	3954.0	4077.1	4107.9	3750.0	3890.6	4028.2
Real GDP/capita growth rate	..	0.6	-8.4	1.0	6.7	-25.0	-22.3	-15.9	3.1	0.8	-8.7	3.7	3.5
Exchange rate (US$/dinar)	3.4	3.4	3.5	3.6	3.6	3.7	3.6	3.5	3.4	3.4	3.3	3.4	3.6
GDP deflator	42.5	43.9	47.5	46.6	65.9	93.6	104.7	104.8	95.0	95.4	100.0	74.3	82.3
GDP deflator growth rate	..	3.3	8.2	-1.9	41.4	42.0	11.9	0.1	-9.4	0.4	4.8	-25.7	10.8
CPI 1985=100	47.7	50.2	55.2	60.0	64.2	68.7	73.7	79.5	83.2	84.2	85.4	86.3	86.8
CPI annual percentage change	..	5.2	10.0	8.7	7.0	7.0	7.3	7.9	4.7	1.2	1.4	1.1	0.6
Wholesale prices 1985=100	69.2	74.5	79.7	78.8	83.9	92.7	99.0	100.1	101.9	101.3	100.0	100.6	103.9
WPI annual percentage change	..	7.7	7.0	-1.1	6.5	10.5	6.8	1.1	1.8	-0.6	-1.3	0.6	3.3
Money (mn dinars)	290.3	393.7	490.7	636.4	669.4	720.8	1286.6	1282.4	1214.4	992.6	1023.2	1025.3	1085.3
Growth rate in money	48.4	35.6	24.6	29.7	5.2	7.7	78.5	-0.3	-5.3	-18.3	3.1	0.2	5.9
Interest rate (lending rate)	..	..	..	..	6.3	6.8	9.3	9.4	8.4	8.6	8.7	8.6	7.9
Total revenue (mn dinars)	3960.4	3033.1	3096.7	3803.6	6968.3	6403.2	4349.2	4235.5	4424.8	3852.1	2345.1	1730.9	2251.7
Total expenditure (mn dinars)	1032.6	1375.3	1750.4	1725.1	2288.8	2696.3	2805.5	2719.5	3168.0	2927.1	3105.8	2860.1	2806.0
Deficit/surplus	2927.8	1657.8	1346.3	2078.5	4679.5	3706.9	1543.7	1516.0	1256.8	925.0	-760.7	-1129.2	-554.3

ANNEX TABLE 3 *(continued)*

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1976-1980	1981-1985	1986-1990	1994-1995
GDP at 1985 prices (mn dinars)	6812.0	8576.0	..	..	6620.0	8886.0	9633.0	9732.0	..	9027.0	7505.0	7491.0	9417.0
Real GDP growth rate (%)	-10.0	25.9	..	..	..	34.2	8.4	1.0	..	1.0	-4.4	8.1	14.6
Population (million)	2.0	2.1	2.1	2.1	1.4	1.5	1.6	1.7	..	1.2	1.6	1.9	1.6
Real GDP/capita (dinars)	3457.9	4183.4	..	..	4662.0	6086.3	5946.3	5758.6	..	7469.5	4117.8	3890.0	5930.4
Real GDP/capita growth rate	-14.2	21.0	..	..	..	30.6	-2.3	-3.2	..	-5.0	-8.6	3.5	8.4
Exchange rate (US$/dinar)	3.6	3.4	..	..	3.4	3.3	3.4	3.4	3.3	3.6	3.4	3.5	3.3
GDP deflator	84.8	83.3	..	..	91.9	81.3	76.6	81.6	..	59.5	100.0	81.2	79.8
GDP deflator growth rate	3.0	-1.8	..	..	..	-11.5	-5.8	6.5	..	18.6	1.6	-3.4	-3.6
CPI 1985=100	88.1	91.0	100.0	109.1	108.5	108.9	111.6	114.6	118.7	59.7	81.2	88.1	111.7
CPI annual percentage change	1.5	3.3	9.9	9.1	-0.5	0.4	2.5	2.7	3.6	7.6	4.5	1.6	1.8
Wholesale prices 1985=100	108.7	118.2	122.7	145.5	146.2	148.8	148.5	150.6	158.3	81.9	100.5	107.9	149.3
WPI annual percentage change	4.6	8.7	3.8	18.6	0.5	1.8	-0.2	1.4	5.1	6.1	1.6	4.3	1.0
Money (mn dinars)	1005.7	969.5	..	1201.2	1108.5	1114.0	1126.0	1185.0	1242.0	582.2	1159.8	1021.5	1141.7
Growth rate in money	-7.3	-3.6	..	..	-7.7	0.5	1.1	5.2	4.9	20.6	11.5	-1.2	2.3
Interest rate (lending rate)	6.7	8.4	..	..	8.0	8.0	7.6	8.4	8.8	6.6	8.9	7.9	8.0
Total revenue (mn dinars)	2367.7	3234.6	274.0	647.3	2363.6	2775.1	3100.7	3473.1	..	4661.0	3841.3	2396.2	3116.3
Total expenditure (mn dinars)	2998.6	3095.7	7613.9	6111.5	3936.3	4240.8	4193.2	4126.5	..	1967.2	2945.2	2940.1	4186.8
Deficit/surplus	-630.9	138.9	-7339.9	-5464.2	-1572.7	-1465.7	-1092.5	-653.4	..	2693.8	896.2	-543.9	-1070.5

Source: International Monetary Fund, *International Financial Statistics Yearbook, 1997* and *International Financial Statistics, August 1998* (Washington, D.C., 1997 and August 1998 respectively).

ANNEX TABLE 4. OMAN: KEY ECONOMIC INDICATORS, 1975-1996

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
GDP 1990 prices (mn riyals)	970.9	1126.0	1324.7	1558.6	1630.3	1723.6	2017.3	2250.2	2609.3	3046.0	3465.1	3580.3	3448.9
Real GDP growth rate (%)	28.5	15.97	17.6	17.7	4.6	5.7	17.0	11.5	16.0	16.7	13.8	3.3	-3.7
Population (million)	0.77	0.79	0.84	0.88	0.93	0.98	1.03	1.09	1.15	1.21	2	1.46	1.53
Real GDP/capita (riyals)	1260.90	1425.31	1577.02	1771.13	1753.01	1758.77	1958.54	2064.40	2268.95	2517.35	1732.55	2452.26	2254.18
Real GDP/capita (US$)	3650.57	4126.56	4565.78	5127.78	5075.30	5091.99	5670.36	5976.84	6569.06	7288.23	5016.06	6377.79	5862.63
Real GDP/capita growth rate	..	13.0	10.6	12.3	-1.0	0.3	11.4	5.4	9.9	10.9	-31.2	41.5	-8.1
Exchange rate (riyals/US$)	0.3454	0.3454	0.3454	0.3454	0.3454	0.3454	0.3454	0.3454	0.3454	0.3454	0.3454	0.3845	0.3845
GDP deflator	74.6	78.5	71.5	60.8	79.1	118.8	123.5	116.2	105	100.1	99.7	78.2	87.1
GDP deflator growth rate	-0.9	5.23	-8.9	-15.0	30.1	50.2	4.0	-5.9	-9.6	-4.7	-0.4	-21.6	11.4
Money (mn riyals)	71.6	102.1	111.2	114.3	123.1	154.7	212.7	248.8	299.1	283.9	328.6	312.8	335.2
Growth rate in money	47.9	42.6	8.9	2.8	7.7	25.7	37.5	17.0	20.2	-5.1	15.7	-4.8	7.2
Interest rate	..	..	..	..	..	..	..	..	..	9.03	9.04	8.33	7.48
Total revenue (mn Oman riyals)	387.7	488	520	502.3	692.2	923.7	1262.2	1175.4	1253.9	1340.7	1572.9	1186.9	1460.2
Total expenditure (mn Oman rials)	509.5	574	524	560	650.4	949.8	1223.7	1412.9	1546.9	1760.3	1928.4	1886.8	1609.1
Deficit/surplus (mn Oman riyals)	-121.8	-86	-4	-57.7	41.8	-26.1	38.5	-237.5	-293	-419.6	-355.5	-699.9	-148.9

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1976-1980	1980-1985	1986-1990	1991-1995
GDP 1990 prices (mn riyals)	3655.0	3767.6	4050.7	4295.3	4660.2	4946.5	5136.7	5384.8	5574.9	1472.6	2677.6	3700.5	4884.7
Real GDP growth rate (%)	6.0	3.1	7.5	6.0	8.5	6.1	3.8	4.8	3.5	12.3	15.0	3.2	5.9
Population (million)	1.6	1.67	1.75	1.83	1.91	1.99	2.1	2.13	2.3	0.9	1.3	1.6	2.0
Real GDP/capita (riyals)	2284.37	2256.04	2314.68	2347.15	2439.89	2485.67	2446.04	2528.07	2423.86	1657.1	2108.4	2312.3	2449.4
Real GDP/capita (US$)	5941.15	5867.48	6019.98	6104.44	6345.63	6464.70	6361.63	6574.96	6303.95	4797.5	6104.1	6013.8	6370.3
Real GDP/capita growth rate	1.3	-1.2	2.6	1.4	4.0	1.9	-1.6	3.4	-4.1	7.1	1.3	7.2	1.8
Exchange rate (riyals/US$)	0.3845	0.3845	0.3845	0.3845	0.3845	0.3845	0.3845	0.3845	0.3845	0.3	0.3	0.4	0.4
GDP deflator	80.1	85.7	100	101.5	102.7	97.1	96.7	98.2	101.5	81.7	108.9	86.2	99.2
GDP deflator growth rate	-8.0	7.0	16.7	1.5	1.2	-5.5	-0.4	1.6	3.4	12.3	-3.3	1.1	-0.3
Money (mn riyals)	315.3	345.4	390.8	405.7	433	451.5	472.9	471.3	503.4	121.1	274.6	339.9	446.9
Growth rate in money	-5.9	9.5	13.1	3.8	6.7	4.3	4.7	-0.3	6.8	17.5	17.1	3.8	3.8
Interest rate	7.57	8.66	8.32	7.06	6.29	4.17	4.34	6.53	6.85		9.0	8.1	5.7
Total revenue (mn Oman riyals)	1204.8	1370.1	1876.3	1585.1	1680.2	1723.9	1757.4	1851.6	..	625.2	1321.0	1419.7	1719.6
Total expenditure (mn Oman rials)	1567.2	1665.8	1887.4	1868.1	2258.7	2242.4	2252.9	2331	..	651.6	1574.4	1723.3	2190.6
Deficit/surplus (mn Oman riyals)	-362.4	-295.7	-11.1	-283	-578.5	-518.5	-495.5	-479.4	0	-26.4	-253.4	-303.6	-471.0

Source: International Monetary Fund, *International Financial Yearbook, 1997* (Washington, D.C., 1997); fiscal data are taken from Oman, Ministry of Development, *Statistical Yearbook, 1995* (Muscat 1995).

ANNEX TABLE 5. QATAR: KEY ECONOMIC INDICATORS, 1975-1996

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
GDP at current prices (mn riyals)	9877.0	13017.0	14332.0	15709.0	21783.0	28663.0	31568.0	27705.0	23605.0	25008.0	22398.0	18398.0	19825.0
GDP growth rate (%)	..	31.8	10.1	9.6	38.7	31.6	10.1	-12.2	-14.8	5.9	-10.4	-17.9	7.8
CPI	..	..	..	..	66.4	70.9	77.0	81.3	83.6	84.5	86.1	87.5	89.8
CPI (annual percentage change)	..	..	..	..	..	6.8	8.6	5.6	2.8	1.1	1.9	1.6	2.6
Money (mn riyals)	1005.0	1576.0	2087.0	2307.0	2492.0	2274.0	3403.0	3795.0	3625.0	4135.0	4017.0	4487.0	4778.0
Growth rate in money (%)	..	56.8	32.4	10.5	8.0	-8.7	49.6	11.5	-4.5	14.1	-2.9	11.7	6.5
Domestic credit (mn riyals)	848.0	1367.0	2181.0	2389.0	2731.0	2998.0	3724.0	4901.0	5376.0	4713.0	5541.0	7434.0	8248.0
Net domestic credit (annual change)	..	519.0	814.0	208.0	342.0	267.0	726.0	1177.0	475.0	-663.0	828.0	1893.0	814.0
Growth rate in net credit (%)	..	..	56.8	-74.4	64.4	-21.9	171.9	62.1	-59.6	-239.6	-224.9	128.6	-57.0
Net foreign assets (mn riyals)	1300.0	1708.0	2002.0	2429.0	2637.0	3359.0	5093.0	5268.0	4261.0	6964.0	7861.0	7882.0	8826.0
Change in net foreign assets mn riyals	..	408.0	294.0	427.0	208.0	722.0	1734.0	175.0	-1007.0	2703.0	897.0	21.0	944.0
Total revenue (mn Qatar riyals)	8154.0	8225.0	12090.0	19004.0	19243.0	22442.0	12848.0	13610.0	10393.0	5884.0	7089.0	7688.0	9057.0
Total expenditure (mn Qatar riyals)	7318.0	6472.0	8273.0	10937.0	14743.0	20672.0	12518.0	12173.0	10374.0	10433.0	10373.0	14382.0	10524.0
Deficit/surplus (mn Qatar riyals)	836.0	1753.0	3817.0	8067.0	4500.0	1770.0	330.0	1437.0	19.0	-4549.0	-3284.0	-6694.0	-1467.0

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1976-1980	1981-1985	1986-1990	1991-1995
GDP at current prices (mn riyals)	21979.0	23616.0	26792.0	25056.0	27832.0	26050	26843.0	27355.0	..	18700.8	26056.8	22122.0	26627.2
GDP growth rate (%)	10.9	7.4	13.4	-6.5	11.1	-6.4	3.0	1.9	..	24.4	-4.3	4.3	0.6
CPI	94.0	97.1	100.0	104.4	107.6	106.7	108.1	111.3	119.5	68.7	82.5	93.7	107.6
CPI (annual percentage change)	4.7	3.3	3.0	4.4	3.1	-0.8	1.3	3.0	7.4	6.8	4.0	3.0	2.2
Money (mn riyals)	3399.0	3403.0	4055.0	3629.0	3990.0	4254.0	3910.0	3720.0	3885.0	2147.2	3795.0	4024.4	3900.6
Growth rate in money (%)	-28.9	0.1	19.2	-10.5	9.9	6.6	-8.1	-4.9	4.4	19.8	13.6	1.7	-1.4
Domestic credit (mn riyals)	8124.0	10148.0	8913.0	10670.0	12955.0	16785.0	17879.0	18064.0	19488.0	2333.2	4851.0	8573.4	15270.6
Net domestic credit (annual change)	-124.0	2024.0	-1235.0	1757.0	2285.0	3830.0	1094.0	185.0	1424.0	430.0	508.6	674.4	1830.2
Growth rate in net credit (%)	-115.2	-1732.3	-161.0	-242.3	30.1	67.6	-71.4	-83.1	669.7	6.2	-58.0	-387.4	-59.8
Net foreign assets (mn riyals)	8154.0	8177.0	8617.0	7476.0	10416.0	5940.0	7156.0	7682.0	7635.0	2427.0	5889.4	8331.2	7734.0
Change in net foreign assets mn riyals	-672.0	23.0	440.0	-1141.0	2940.0	-4476.0	1216.0	526.0	-47.0	411.8	900.4	151.2	-187.0
Total revenue (mn Qatar riyals)	12008.0	10372.0	12121.0	10645.0	10188.0	9680.0	10797.0	..	..	16200.8	9964.8	10249.2	10327.5
Total expenditure (mn Qatar riyals)	11388.0	11764.0	12811.0	13435.0	12686.0	11768.0	13747.0	..	..	12219.4	11174.2	12173.8	12909.0
Deficit/surplus (mn Qatar riyals)	620.0	-1392.0	-690.0	-2790.0	-2498.0	-2088.0	-2950.0	..	..	3981.4	-1209.4	-1924.6	-2581.5

Source: International Monetary Fund, *International Financial Statistics Yearbook, 1997* (Washington, D.C., 1997); fiscal data are from ESCWA, *Statistical Abstract of the ESCWA Region* (various issues).

ANNEX TABLE 6. EGYPT: KEY ECONOMIC INDICATORS, 1975-1997

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
GDP at current prices	4886.0	6276.0	8210.0	9783.0	12475.0	15470.0	17150.0	20753.0	25895.0	31547.0	37240.0	42563.0	51500.0
GDP at 1990 prices (mn pounds)	..	..	..	..	..	..	..	55951.0	59553.0	63130.0	70785.0	77203.0	82144.0
Real GDP growth rate (%)	..	..	..	..	..	..	..	..	6.4	6.0	12.1	9.1	6.4
Population (million)	37.2	37.9	38.8	39.8	41.0	42.1	41.7	42.8	44.0	45.2	46.5	47.8	49.1
Real GDP/capita (pounds)	..	..	..	..	..	..	..	1306.0	1352.9	1395.8	1523.2	1614.8	1674.7
Real GDP/capita (US$)	..	..	..	..	..	..	..	1865.8	1932.7	1993.9	2176.1	2306.8	2392.4
Real GDP/capita growth rate (%)	..	..	..	..	..	..	..	..	3.5	3.1	8.4	5.7	3.6
Exchange rate (pounds /US$)	0.4	0.4	0.4	0.4	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
GDP deflator 1990=100	..	..	..	..	..	..	..	37.1	43.5	50.0	52.6	55.1	62.7
GDP deflator growth rate	..	..	..	..	..	..	..	..	17.3	14.9	5.2	4.8	13.8
CPI	11.5	12.6	14.2	15.8	17.4	21.0	23.2	26.6	30.9	36.1	40.5	50.2	60.0
CPI (annual percentage change)	..	9.6	12.7	11.3	10.1	20.7	10.5	14.7	16.2	16.8	12.2	24.0	19.5
WPI	13.0	14.0	15.3	17.5	19.3	23.4	25.3	27.7	32.1	35.3	40.0	46.9	53.3
WPI (annual percentage change)	..	7.7	9.3	14.4	10.3	21.2	8.1	9.5	15.9	10.0	13.3	17.3	13.6
Money (mn pounds)	1863.0	2239.0	2943.0	3553.0	4354.0	6775.0	7646.0	9552.0	10933.0	12443.0	14696.0	15973.0	18241.0
Change in money	..	376.0	704.0	610.0	801.0	2421.0	871.0	1906.0	1381.0	1510.0	2253.0	1277.0	2268.0
Seigniorage (inflation tax)													
As a percentage of GDP	..	6.0	8.6	6.2	6.4	15.6	5.1	9.2	5.3	4.8	6.0	3.0	4.4
As a percentage of revenues	..	16.3	20.8	16.2	17.2	..	10.8	19.6	12.6	12.2	16.5	8.2	13.5
Growth rate in money (%)	..	20.2	31.4	20.7	22.5	55.6	12.9	24.9	14.5	13.8	18.1	8.7	14.2
Domestic credit (mn pounds)	3725.0	4279.0	5024.0	7901.0	9897.0	14065.0	17871.0	22008.0	26104.0	31553.0	37674.0	44747.0	52476.0
Net domestic credit (annual change)	..	554.0	745.0	2877.0	1996.0	4168.0	3806.0	4137.0	4096.0	5449.0	6121.0	7073.0	7729.0
Growth rate in credit (%)	..	14.9	17.4	57.3	25.3	42.1	27.1	23.1	18.6	20.9	19.4	18.8	17.3
Interest (deposit) rate	..	3.0	4.7	5.9	7.0	8.3	10.0	11.0	11.0	11.0	11.0	11.0	11.0
External debt (bn US$)	..	..	..	..	16.63	20.92	23.95	29.52	32.6	35.7	42.1	46.3	52.2
Government revenues (mn pounds)	2039	2306	3388	3758	4666	..	8072	9711	10977	12345	13681.0	15508.0	16764.0
Budget deficit/surplus (mn pounds)	..	-1557.0	-1114.0	-1246.0	-1964	-1928	-1096	-3554	-2364	-3258	-3439	-4655	-2613
Government revenues (as % of GDP at current prices)	41.7	36.7	41.3	38.4	37.4	..	47.1	46.8	42.4	39.1	36.7	36.4	32.6
Budget deficit/surplus (as % of GDP at current prices)	..	-24.8	-13.6	-12.7	-15.7	-12.5	-6.4	-17.1	-9.1	-10.3	-9.2	-10.9	-5.1

ANNEX TABLE 6 *(continued)*

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1976-1980	1981-1985	1986-1990	1991-1995
;DP at current prices	61600.0	76800.0	96100.0	111200.0	139100.0	157300.0	175000.0	205000.0	228300.0	255800.0	10442.8	26517.0	65712.6	157520.0
;DP at 1990 prices (mn pounds)	86610.0	90916.0	96100.0	97137.0	101443.0	104368.0	108488.0	113433.0	119267.0	126283.0	..	62354.8	86594.6	104973.8
eal GDP growth rate (%)	5.4	5.0	5.7	1.1	4.4	2.9	3.9	4.6	5.1	5.9	..	8.2	6.3	3.4
opulation (million)	50.3	51.5	52.7	53.9	55.7	56.5	58.3	59.2	60.0	62.0	39.9	44.0	50.3	56.7
eal GDP/capita (pounds)	1722.9	1766.0	1823.9	1801.5	1819.9	1847.5	1859.9	1915.1	1987.8	2036.5	..	1394.5	1720.5	1848.8
eal GDP/capita (US$)	2461.3	1605.5	911.9	540.6	545.1	547.9	548.5	564.9	586.7	601.1	..	1992.1	1935.6	549.4
eal GDP/capita growth rate (%)	2.8	-53.3	-76.1	-68.7	0.8	0.5	0.1	2.9	3.7	2.4	..	5.0	-23.5	-12.9
xchange rate (pounds /US$)	0.7	1.1	2.0	3.3	3.3	3.4	3.4	3.4	3.4	3.4	0.5	0.7	1.0	3.4
DP deflator 1990=100	71.1	84.5	100.0	114.5	137.1	150.7	161.3	180.7	191.4	202.6	..	45.8	74.7	148.9
DP deflator growth rate	13.4	18.8	18.3	14.5	19.7	9.9	7.0	12.0	5.9	5.8	..	12.5	13.8	12.6
PI	70.6	85.6	100.0	119.7	136.1	152.5	165.0	190.9	204.7	214.1	16.2	31.5	73.3	152.8
PI (annual percentage change)	17.7	21.2	16.8	19.7	13.7	12.0	8.2	15.7	7.2	4.6	12.9	14.1	19.8	13.9
'PI	67.3	85.6	100.0	117.9	132.2	143.5	150.1	159.6	172.9	180.1	17.9	32.1	70.6	140.7
'PI (annual percentage change)	26.3	27.2	16.8	17.9	12.1	8.5	4.6	6.3	8.3	4.2	12.6	11.4	20.2	9.9
oney (mn pounds)	20759.0	22471.0	26205.0	28337.0	30832.0	34571.0	38275.0	41540.0	44521.0	48708.0	3972.8	11054.0	20729.8	34711.0
ıange in money	2518.0	1712.0	3734.0	2132.0	2495.0	3739.0	3704.0	3265.0	2981.0	4187.0	982.4	1584.2	2301.8	3067.0
:igniorage (inflation tax)														
; a percentage of GDP	4.1	2.2	3.9	1.9	1.8	2.4	2.1	1.6	1.3	1.6	8.6	6.1	3.5	1.8
; a percentage of revenues	12.6	7.5	15.9	6.0	5.0	6.3	..	..	..	..	17.6	14.3	11.6	5.8
'owth rate in money (%)	13.8	8.2	16.6	8.1	8.8	12.1	10.7	8.5	7.2	9.4	30.1	16.8	12.3	9.7
›mestic credit (mn pounds)	63052.0	78798.0	99625.0	107483.0	111311.0	119278.0	134906.0	157300.0	179230.0	207724.0	8233.2	27042.0	67739.6	126055.6
:t domestic credit (annual ange)	10576.0	15746.0	20827.0	7858.0	3828.0	7967.0	15628.0	22394.0	21930.0	28494.0	2068.0	4721.8	12390.2	11535.0
'owth rate in credit (%)	20.2	25.0	26.4	7.9	3.6	7.2	13.1	16.6	13.9	15.9	31.4	21.8	21.5	9.7
erest (deposit) rate	11.0	11.0	11.7	12.0	12.0	12.0	11.8	10.9	10.5	9.8	5.8	10.8	11.1	11.7
ternal debt (bn US$)	52.7	51.7	40.5	41.0	40.5						18.8	32.8	48.7	40.8
ıvernment revenues (mn unds)	19916.0	22916.0	23435.0	35430.0	49678.0	59443.0	..	..	..	..	3529.5	10957.2	19707.8	48183.7
dget deficit/surplus (mn unds)	-4716	-4126	-5494	-1067	-4831	2681.0	589.0	..	..	..	-1561.8	-2742.2	-4320.8	-657.0
vernment revenues (as % of GDP at current prices)	32.3	29.8	24.4	31.9	35.7	37.8	..	..	..	..	38.5	42.4	31.1	35.1
dget deficit/surplus (as % of GDP at current prices)	-7.7	-5.4	-5.7	-1.0	-3.5	1.7	0.3	..	..	..	-15.9	-10.4	-7.0	-0.6

Source: International Monetary Fund, *International Financial Statistics Yearbook, 1997* (Washington, D.C., 1997); fiscal data are from ESCWA, *Statistical Abstract of the ESCWA Region* (various issues).

ANNEX TABLE 7. JORDAN: KEY ECONOMIC INDICATORS, 1975-1997

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
GDP at current prices (mn JD)[a]	379.1	512.1	624.6	767.9	914.6	1151.2	1426.8	1701.1	1828.7	1981.4	2020.2	2163.6	2208.6	2264.4
GDP 1990=100 mn JD	1236.9	1499.4	1595.5	1823.3	1914.4	2251.9	2473.5	2611.6	2676.9	2714.9	2825.2	3023.4	3110.9	3053.2
Real GDP growth rate (%)	..	21.2	6.4	14.3	5.0	17.6	9.8	5.6	2.5	1.4	4.1	7.0	2.9	-1.9
Population (million)	2.7	2.8	2.7	2.8	2.8	2.9	3.0	3.1	3.2	3.4	3.8	3.9	4.0	4.1
Real GDP/capita (JD)	458.1	539.4	588.7	658.2	674.1	771.2	821.8	842.5	836.5	808.0	737.7	767.4	777.7	752.0
Real GDP/capita (US$)	394.0	497.8	525.3	557.0	574.9	671.3	816.5	920.1	971.7	1042.7	1113.2	1057.8	1053.8	1134.3
Real GDP/capita growth rate (%)	..	17.7	9.2	11.8	2.4	14.4	6.6	2.5	-0.7	-3.4	-8.7	4.0	1.4	-3.3
Exchange rate (US$/JD)	3.1	3.0	3.0	3.3	3.3	3.4	3.0	2.8	2.8	2.6	2.5	2.9	3.0	2.7
GDP deflator 1990=100	30.6	34.2	39.1	41.9	47.8	51.1	57.7	65.1	68.3	73.0	71.5	71.6	71.0	74.2
GDP deflator growth rate	..	11.8	14.3	7.2	14.1	6.9	12.9	12.8	4.9	6.9	-2.1	0.1	-0.8	4.5
CPI	28.6	31.8	36.5	39.0	44.6	49.5	53.3	57.3	60.2	62.5	64.3	64.3	64.2	68.5
CPI (annual percentage change)	..	11.2	14.8	6.8	14.4	11.0	7.7	7.5	5.1	3.8	2.9	0.0	-0.2	6.7
Money (mn JD)	224.7	276.7	329.0	370.5	465.5	580.7	701.7	787.5	869.4	878.4	848.2	897.1	979.8	1166.8
Change in money	..	52.0	52.3	41.5	95.0	115.2	121.0	85.8	81.9	9.0	-30.2	48.9	82.7	187.0
Seigniorage (inflation tax)	..	10.2	8.4	5.4	10.4	10.0	8.5	5.0	4.5	0.5	-1.5	2.3	3.7	8.3
Seigniorage (as % of gov. rev.)	..	48.3	36.8	26.0	50.6	50.9	39.1	23.7	20.4	2.2	-6.9	9.5	15.6	34.4
Growth rate in money (%)	..	23.1	18.9	12.6	25.6	24.7	20.8	12.2	10.4	1.0	-3.4	5.8	9.2	19.1
Domestic credit (mn JD)	152.6	240.0	275.7	425.2	545.9	666.7	883.9	1162.1	1360.4	1587.7	1743.0	1833.6	2190.5	2637.3
Net domestic credit (annual change)	..	87.4	35.7	149.5	120.7	120.8	217.2	278.2	198.3	227.3	155.3	90.6	356.9	446.8
Growth rate in credit (%)		57.3	14.9	54.2	28.4	22.1	32.6	31.5	17.1	16.7	9.8	5.2	19.5	20.4
External debt (bn US$)					1.5	2.0	2.3	2.8	3.1	3.4	4.0	4.9	6.3	5.7
Government revenues (mn JD)	82.6	107.6	142.3	159.5	187.9	226.2	309.2	362.0	400.6	415.0	440.8	514.4	531.5	544.3
Budget deficit/surplus (mn JD)	-14.8	-81.4	-61.1	-110.8	-104.1	-103.9	-100.8	-113.0	-68.2	-142.0	-111.7	-153.1	-198.2	-204.6
Government revenues (as % of GDP)	21.8	21.0	22.8	20.8	20.5	19.6	21.7	21.3	21.9	20.9	21.8	23.8	24.1	24.0
Budget deficit/surplus (as % of GDP)	-3.9	-15.9	-9.8	-14.4	-11.4	-9.0	-7.1	-6.6	-3.7	-7.2	-5.5	-7.1	-9.0	-9.0

ANNEX TABLE 7 *(continued)*

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1976-1980	1981-1985	1986-1990	1991-1995
GDP at current prices (mn JD)[a]	2372.1	2668.3	2855.1	3493.0	3801.7	4201.3	4654.6	5146.7	..	794.1	1791.6	2335.4	3801.1
GDP 1990=100 mn JD	2642.6	2668.3	2717.0	3153.7	3330.1	3601.4	3851.3	4052.8	..	1816.9	2660.4	2899.7	3330.7
Real GDP growth rate (%)	-13.4	1.0	1.8	16.1	5.6	8.1	6.9	5.2	..	12.9	4.7	-0.9	7.7
Population (million)	4.1	4.3	4.4	4.7	4.9	5.2	5.4	5.6	..	2.8	3.3	4.1	4.9
Real GDP/capita (JD)	639.9	626.4	611.9	675.3	674.1	692.6	708.0	726.3	..	646.3	809.3	712.7	672.4
Real GDP/capita (US$)	1507.3	1770.7	1849.7	2143.6	2307.1	2516.3	2697.7	2873.5	..	565.3	972.8	1304.8	2302.9
Real GDP/capita growth rate (%)	-14.9	-2.1	-2.3	10.4	-0.2	2.7	2.2	2.6	..	11.1	-0.7	-3.0	2.6
Exchange rate (US$/JD)	1.8	1.5	1.5	1.5	1.4	1.4	1.4	1.4	..	3.2	2.8	2.4	1.4
GDP deflator 1990 =100	89.8	100.0	105.1	110.8	114.2	116.7	120.9	127.0	..	42.8	67.1	81.3	113.5
GDP deflator growth rate	21.0	11.4	5.1	5.4	3.1	2.2	3.6	5.0	..	10.8	7.1	7.2	3.9
CPI	86.1	100.0	108.2	112.5	116.2	120.3	123.1	131.1	135.1	40.3	59.5	76.6	116.1
CPI (annual percentage change)	25.7	16.1	8.2	4.0	3.3	3.5	2.3	6.5	3.1	11.6	5.4	9.7	4.3
Money (mn JD)	1302.3	1425.3	1646.6	1716.0	1720.0	1741.7	1738.7	1532.8	1626.1	404.5	817.0	1154.3	1712.6
Change in money	135.5	123.0	221.3	69.4	4.0	21.7	-3.0	-205.9	93.3	71.2	53.5	115.4	62.7
Seigniorage (inflation tax)	5.7	4.6	7.8	2.0	0.1	0.5	-0.1	-4.0		8.9	3.4	4.9	2.1
Seigniorage (as % of gov. rev.)	24.0	16.5	26.7	5.9	0.3	1.7	-0.2	-13.6		42.5	15.7	20.0	6.9
Growth rate in money (%)	11.6	9.4	15.5	4.2	0.2	1.3	-0.2	-11.8	6.1	21.0	8.2	11.0	4.2
Domestic credit (mn JD)	2780.7	2935.1	2759.1	3220.9	3324.8	3723.1	4089.1	4114.2	4184..4	430.7	1347.4	2475.4	3423.4
Net domestic credit (annual change)	143.4	154.4	-176.0	461.8	103.9	398.3	366.0	25.1	70.2	102.8	215.3	238.4	230.8
Growth rate in credit (%)	5.4	5.6	-6.0	16.7	3.2	12.0	9.8	0.6	1.7	35.4	21.5	11.2	7.2
External debt (bn US$)	6.5	7.3	7.8	7.2	7.0					1.8	3.1	6.1	7.3
Government revenues (mn JD)	565.4	744.1	828.8	1168.9	1191.5	1306.4	1389.1	1518.0	1574.0	164.7	385.5	579.9	1176.9
Budget deficit/surplus (mn JD)	-147.1	-94.4	12.4	181.0	69.7	105.0	15.2	75.9	14.3	-92.3	-107.1	-159.5	76.7
Government revenues (as % of GDP)	23.8	27.9	29.0	33.5	31.3	31.1	29.8	29.5	..	21.0	21.5	24.7	31.0
Budget deficit/surplus (as % of GDP)	-6.2	-3.5	0.4	5.2	1.8	2.5	0.3	1.5	..	-12.1	-6.0	-7.0	2.1

Source: International Monetary Fund, *International Financial Statistics Yearbook, 1997* (Washington, D.C., 1997); fiscal data are from ESCWA, *Statistical Abstract of the ESCWA Region* (various issues).

a/ Jordanian dinars.

ANNEX TABLE 8. SYRIAN ARAB REPUBLIC: KEY ECONOMIC INDICATORS, 1975-1996

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
GDP at current prices (mn pounds)	20597.0	24725.0	27013.0	32389.0	38974.0	51270.0	65777.0	68788.0	73291.0	75342.0	83225.0	99933.0	127712.0
GDP at 1990 prices (mn pounds)	160767.0	175123.0	172674.0	186239.0	193004.0	216132.0	236681.0	241704.0	245158.0	235176.0	249557.0	237215.0	241740.0
Real GDP growth rate (%)	..	8.9	-1.4	7.9	3.6	12.0	9.5	2.1	1.4	-4.1	6.1	-4.9	1.9
Population (million)	7.4	7.7	8.0	8.2	8.4	8.7	9.0	9.3	9.6	9.9	10.3	10.6	11.0
Real GDP mn US$	43450.5	44617.3	43993.4	47449.4	49173.0	55065.5	60300.9	61580.6	62460.6	59917.5	63581.4	60436.9	61589.8
Real GDP/capita (US$)	5840.1	5779.4	5485.5	5822.0	5840.0	6329.4	6700.1	6621.6	6499.5	6034.0	6191.0	5696.2	5614.4
Real GDP/capita growth rate (%)		-1.0	-5.1	6.1	0.3	8.4	5.9	-1.2	-1.8	-7.2	2.6	-8.0	-1.4
Exchange rate (pounds/US$)	3.700	3.925	3.925	3.925	3.925	3.925	3.925	3.925	3.925	3.925	3.925	3.925	3.925
Exchange rate (pounds/SDR)	4.331	4.560	4.768	5.113	5.171	5.006	4.569	4.330	4.109	3.847	4.311	4.801	5.568
% depreciation	..	5.3	4.6	7.2	1.1	-3.2	-8.7	-5.2	-5.1	-6.4	12.1	11.4	16.0
GDP deflator 1990=100	12.8	14.1	15.6	17.4	20.2	23.7	27.8	28.5	29.9	32.0	33.0	42.1	52.8
GDP deflator growth rate (%)	..	10.2	10.8	11.2	16.1	17.5	17.2	2.4	5.1	7.2	3.1	27.5	25.4
CPI	8.6	9.6	10.7	11.2	11.7	14.0	16.6	18.9	20.1	22.0	25.7	35.0	55.9
CPI (annual percentage change)	..	11.6	11.5	4.7	4.5	19.7	18.6	13.9	6.3	9.5	16.8	36.2	59.7
Money (mn pounds)	6966.0	8561.0	10924.0	13866.0	16119.0	21854.0	24832.0	29518.0	36987.0	45607.0	54976.0	61214.0	67821.0
Change in money (mn pounds)	..	1595.0	2363.0	2942.0	2253.0	5735.0	2978.0	4686.0	7469.0	8620.0	9369.0	6238.0	6607.0
Growth rate in money (%)	..	22.9	27.6	26.9	16.2	35.6	13.6	18.9	25.3	23.3	20.5	11.3	10.8
Interest (deposit) rate	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Seigniorage (inflation tax)													
as % of GDP	..	6.5	8.7	9.1	5.8	11.2	4.5	6.8	10.2	11.4	11.3	6.2	5.2
as % of revenues	..	17.6	22.9	40.1	24.5	41.7	20.1	..	..	..	..	25.9	23.4
Total revenue (mn pounds)	8698.0	9058.0	10320.0	7341.0	9201.0	13759.0	14844.0	..	..	..	..	24128.0	28276.0
Deficit/surplus (mn pounds)	-992.0	-2332.0	-2928.0	-2935.0	303.0	-4976.0	-4157.0	..	..	..	..	-8267.0	-3355.0
Memorandum:													
Revenue/GDP	42.2	36.6	38.2	22.7	23.6	26.8	22.6	..	..	..	..	24.1	22.1
Deficit/surplus/GDP	-4.8	-9.4	-10.8	-9.1	0.8	-9.7	-6.3	..	..	..	..	-8.3	-2.6

ANNEX TABLE 8 *(continued)*

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1976-1980	1981-1985	1986-1990	1991-1995
GDP at current prices (mn pounds)	186047.0	208892.0	268328.0	311564.0	371630.0	413755.0	502347.0	551744.0	672626.0	34874.2	73284.6	178182.4	470611.0
GDP at 1990 prices (mn pounds)	273809.0	249281.0	268328.0	287513.0	317943.0	339148.0	365023.0	378139.0	399060.0	188634.4	241655.2	254074.6	347804.3
Real GDP growth rate (%)	13.3	-9.0	7.6	7.1	10.6	6.7	7.6	3.6	5.5	6.2	3.0	1.8	6.9
Population (million)	11.3	11.7	12.1	12.5	13.0	13.4	13.8	14.2	14.6	8.2	9.6	11.4	13.6
Real GDP mn US$	24392.8	22207.7	23904.5	25613.6	28324.5	30213.6	32518.8	33687.2	35551.0	48059.7	61568.2	38506.3	30984.8
Real GDP/capita (US$)	2151.0	1894.9	1972.3	2044.2	2185.5	2256.4	2349.6	2374.0	2431.7	5851.3	6409.2	3465.8	2273.6
Real GDP/capita growth rate (%)	-61.7	-11.9	4.1	3.6	6.9	3.2	4.1	1.0	2.4	1.7	-0.3	-15.8	3.6
Exchange rate (pounds/US$)	11.225	11.225	11.225	11.225	11.225	11.225	11.225	11.225	11.225	3.925	3.925	8.305	11.225
Exchange rate (pounds/SDR)	15.105	14.751	15.969	16.057	15.434	15.418	16.387	16.686	16.141	4.924	4.233	11.239	16.021
% depreciation	171.3	-2.3	8.3	0.6	-3.9	-0.1	6.3	1.8	-3.3	3.0	-2.7	40.9	0.2
GDP deflator 1990=100	68.0	83.8	100.0	108.4	116.9	122.0	137.6	145.9	168.6	18.2	30.2	69.3	133.2
GDP deflator growth rate (%)	28.6	23.3	19.3	8.4	7.9	4.4	12.8	6.0	15.5	13.2	7.0	24.8	9.2
CPI	75.2	83.8	100.0	109.0	121.0	137.0	158.0	170.6	184.7	11.4	20.7	70.0	146.7
CPI (annual percentage change)	34.5	11.4	19.3	9.0	11.0	13.2	15.3	8.0	8.3	10.4	13.0	32.2	10.8
Money (mn pounds)	79814.0	95030.0	118717.0	146263.0	181617.0	221649.0	210436.0	228123.0	244033.0	14264.8	38384.0	84519.2	205353.5
Change in money (mn pounds)	11993.0	15216.0	23687.0	27546.0	35354.0	40032.0	-11213.0	17687.0	15910.0	2977.6	6624.4	12748.2	20886.0
Growth rate in money (%)	17.7	19.1	24.9	23.2	24.2	22.0	-5.1	8.4	7.0	25.9	20.3	16.8	13.3
Interest (deposit) rate	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Seigniorage (inflation tax)													
as % of GDP	6.4	7.3	8.8	8.8	9.5	9.7	-2.2	3.2	2.4	8.2	8.8	6.8	5.2
as % of revenues	31.4	31.5	40.4	38.8	41.2	43.2	-10.0	13.5	..	29.4	20.1	30.5	25.3
Total revenue (mn pounds)	38181.0	48374.0	58639.0	70965.0	85788.0	92619.0	111892.0	131002.0	..	9935.8	14844.0	39519.6	98453.2
Deficit/surplus (mn pounds)	2319.0	-1267.0	921.0	4184.0	6273.0	115.0	-18860.0	-10059.0	..	-2573.6	-4157.0	-1929.8	-3669.4
Memorandum:													
Revenue/GDP	20.5	23.2	21.9	22.8	23.1	22.4	22.3	23.7	..	29.6	22.6	22.4	22.9
Deficit/surplus/GDP	1.2	-0.6	0.3	1.3	1.7	0.0	-3.8	-1.8	..	-7.7	-6.3	-2.0	-0.5

Source: International Monetary Fund, *International Financial Statistics Yearbook, 1997* (Washington, D.C., 1997); fiscal data are from ESCWA, *Statistical Abstract of the ESCWA Region* (various issues).

ANNEX TABLE 9. YEMEN: KEY ECONOMIC INDICATORS, 1990-1998

	1990	1991	1992	1993	1994	1995	1996	1997	1998	Average for 1991-1995
GDP at current prices (mn riyals)	..	146012.0	182786.0	220249.0	268789.0	447753.0	655192.0	740636.0	..	253117.8
GDP at 1990 prices (mn riyals)	..	123906.0	130084.0	133694.0	132628.0	144014.0	152141.0	160044.0	..	132865.2
Non-oil GDP at current prices	..	131182.0	169574.0	207487.0	250999.0	378637.0	463919.0	532242.0	..	227575.8
Non-oil GDP at 1990 prices	..	108796.0	116495.0	119668.0	111646.0	119817.0	124672.0	132053.0	..	115284.4
GDP deflator 1990=100	100.0	117.8	140.5	164.7	202.7	310.9	430.6	462.8	..	187.3
GDP deflator growth rate	..	17.8	19.2	17.2	23.0	53.4	38.5	7.5	..	26.2
Real GDP growth rate (%)	..	..	5.0	2.8	-0.8	8.6	5.6	5.2	..	3.9
Real non-oil GDP growth (%)	..	..	7.1	2.7	-6.7	7.3	4.1	5.9	..	2.6
Population (million)	..	11.6	12.0	12.3	14.9	15.4	15.9	16.5	..	13.2
Real GDP/capita (riyals)	..	10672.4	10885.7	10869.4	8925.2	9369.8	9556.6	9711.4	..	10144.5
Real GDP/capita (US$)	..	889.4	907.1	905.8	743.8	229.4	86.0	75.0	..	735.1
Real GDP/capita growth rate	..	..	2.0	-0.1	-17.9	5.0	2.0	1.6	..	-2.8
Exchange rate (riyals/US$)	12.0	12.0	12.0	12.0	12.0	40.8	111.1	129.5	132.8	17.8
Parallel exchange rate (riyal/$)	..	..	..	48.6	80.8	121.7	128.3	130.5	132.7	83.7
CPI 1992=100	44.8	78.4	100.0	132.2	184.8	293.0	377.2	..	..	157.7
CPI (annual percentage change)	26.9	75.0	27.6	32.2	39.8	58.5	28.7	..	..	46.6
Money (mn riyals)	54536.0	60868.3	75779.3	103356.6	139708.8	164135.3	156698.0	166385.0	170957.2	108769.7
Change in money	..	6332.3	14911.0	27577.3	36352.2	24426.5	-7437.3	9687.0	4572.2	21919.9
Growth rate in money (%)	..	11.6	24.5	36.4	35.2	17.5	-4.5	6.2	2.7	25.0
Inflation tax (as % of GDP)	..	4.3	8.2	12.5	13.5	5.5	-1.1	1.3	..	8.8
Deficit/surplus	..	..	..	-30760.0	-44792.0	-27461.0	-464.0	-12922.0	-18264.0	-34337.7
Deficit/GDP	..	..	..	-14.0	-16.7	-6.1	-0.1	-1.7	..	-12.3

Source: GDP figures are from Yemen, *Statistical Yearbook, 1997*, pp. 384-385; the consumer price index is from ESCWA, *Statistical Abstract of the ESCWA Region* (various issues); parallel exchange rate figures are from the Central Bank of Yemen, *Financial Statistical Bulletin*, January-March 1998, p. 34.

Note: Figures for 1998 are for the first quarter only. Beginning in January 1996 the exchange rate was determined by the market.

ANNEX TABLE 10. LEBANON: KEY ECONOMIC INDICATORS, 1974-1996

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
GDP at current prices (mn pounds)	8137.0	7500.0	4099.0	8199.0	9799.0	11150.0	14000.0	16800.0	12599.0	16573.0	28171.0	59329.0	108096.0
GDP at 1974 prices (mn pounds)	8137.0	6824.0	2894.0	4853.0	4728.0	4841.0	4912.0	4939.0	3122.0	3831.0	5535.0	6880.0	6414.0
Real GDP growth rate (%)	..	-16.1	-57.6	67.7	-2.6	2.4	1.5	0.5	-36.8	22.7	44.5	24.3	-6.8
Population (million)	2.7	2.8	2.8	2.8	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.6
GDP deflator 1974=100	100.0	91.0	70.6	59.2	48.2	43.4	35.1	29.4	24.8	23.1	19.6	11.6	5.9
GDP deflator 1990=100	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.5	0.6	0.6	0.7	1.2	2.3
Growth rate in deflator	..	9.9	28.9	19.3	22.7	11.1	23.7	19.3	18.6	7.2	17.7	69.4	95.4
Real GDP/capita (pounds)	2980.6	2463.5	1044.8	1758.3	1731.9	1793.0	1839.7	1856.8	1173.7	1440.2	2065.3	2576.8	2429.5
Real GDP/capita (US$)	1295.9	1071.1	360.3	567.2	577.3	560.3	541.1	431.8	249.7	320.1	317.7	157.1	63.3
Real GDP/capita growth rate	..	-16.1	-57.6	67.7	-2.6	2.4	1.5	0.5	-36.8	22.7	44.5	24.3	-6.8
Market rate (pounds/US$)	2.300	2.300	2.900	3.100	3.000	3.200	3.400	4.300	4.700	4.500	6.500	16.400	38.400
NEER[a/] 1990=100	..	..	..	..	..	18273.400	17263.700	16282.700	16693.800	18923.300	14570.700	6079.600	2450.700
REER[b/] 1989=100	128.870	122.130	125.530	124.880	120.940	120.350	125.640	127.640	142.360	163.230	140.380	93.660	71.640
REER 1990=100	120.125	113.842	117.012	116.406	112.733	112.183	117.114	118.978	132.699	152.153	130.854	87.304	66.779
CPI 1974=100	100.0	110.0	142.0	169.0	186.0	230.0	285.0	340.0	404.0	433.0	509.0	862.0	1685.0
CPI 1990=100	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.5	0.6	0.6	0.7	1.2	2.3
CPI (annual percentage change)	..	10.0	29.1	19.0	10.1	23.7	23.9	19.3	18.8	7.2	17.6	69.4	95.5
Money (mn pounds)	3131.0	3172.0	4229.0	4751.0	5384.0	5209.0	6197.0	7156.0	10147.0	11584.0	13170.0	18642.0	25138.0
Change in money	..	41.0	1057.0	522.0	633.0	-175.0	988.0	959.0	2991.0	1437.0	1586.0	5472.0	6496.0
Growth rate in money (%)	..	1.3	33.3	12.3	13.3	-3.3	19.0	15.5	41.8	14.2	13.7	41.5	34.8
Inflation tax (as % of GDP)	..	0.5	25.8	6.4	6.5	-1.6	7.1	5.7	23.7	8.7	5.6	9.2	6.0
Total revenue (mn pounds)	..	..	..	..	..	..	..	..	..	..	..	..	6.1
Total expenditure (mn pounds)	..	..	..	..	..	..	..	..	..	..	..	..	34.3
Deficit/surplus (mn pounds)	..	..	..	..	..	..	..	..	..	..	..	..	-28.2

ANNEX TABLE 10 *(continued)*

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1976-1980	1981-1985	1986-1990	1991-1996
GDP at current prices (mn pounds)	740743.0	1356000.0	1350000.0	1973000.0	4132000.0	9499000.0	13122000.0	..	..	..	..	..	..	..
GDP at 1974 prices (mn pounds)	7487.0	5375.0	3107.0	2690.0	3720.0	3887.0	4161.0	..	..	..	4445.6	4861.4	5595.8	3614.5
Real GDP growth rate (%)	16.7	-28.2	-42.2	-13.4	38.3	4.5	7.0	..	..	..	2.3	11.0	-15.1	9.1
Population (millions)	2.6	2.6	2.5	2.6	2.6	2.7	2.8	2.9	3.0	..	2.7	2.7	2.6	2.7
GDP deflator 1974=100	1.0	0.4	0.2	0.1	0.1	0.0	0.0	..	..	..	51.3	21.7	1.9	0.1
GDP deflator 1990=100	13.5	34.4	59.2	100.0	151.4	333.2	430.0	..	..	..	0.3	0.7	27.4	253.6
Growth rate in deflator	487.1	155.0	72.2	68.8	51.4	120.0	29.0	..	..	..	21.1	26.5	202.4	67.3
Real GDP/capita (pounds)	2879.6	2099.6	1223.2	1054.9	1425.3	1439.6	1480.8	..	..	..	1633.5	1822.6	2158.0	1350.2
Real GDP/capita (US$)	12.8	5.1	2.5	1.5	1.5	0.8	0.9	..	..	..	521.2	295.3	20.9	1.2
Real GDP/capita growth rate	16.7	-28.2	-42.2	-13.4	38.3	4.5	7.0	..	..	..	2.3	11.0	-15.1	9.1
Market rate (pounds/US$)	224.600	409.200	496.700	695.100	928.200	1712.800	1741.400	1680.100	1621.400	1571.400	3.1	7.3	292.2	1269.4
NEER[a/] 1990=100	441.700	167.300	143.300	100.000	76.800	47.300	47.800	52.700	52.200	55.700	17768.6	14510.0	800.8	68.0
REER[b/] 1989=100	74.460	70.550	100.000	107.280	114.290	142.110	170.080	..	..	..	123.5	133.5	79.2	133.4
REER 1990=100	69.407	65.762	93.214	100.000	106.534	132.466	158.538	..	..	..	115.1	124.4	73.8	124.4
CPI 1974=100	9894.0	25229.0	43445.0	73342.0	111085.0	244372.0	315368.0	..	..	..	202.4	509.6	20063.3	186041.8
CPI 1990=100	13.5	34.4	59.2	100.0	151.5	333.2	430.0	0.0	..	..	0.3	0.7	27.4	253.7
CPI (annual percentage change)	487.2	155.0	72.2	68.8	51.5	120.0	29.1	..	..	..	21.1	26.4	202.5	67.3
Money (mn pounds)	57706.0	195952.0	332038.0	509070.0	800051.0	1521861.0	2190136.0	..	..	..	5154.0	12139.8	152708.5	255279.5
Change in money	32568.0	138246.0	136086.0	177032.0	290981.0	721810.0	668275.0	..	..	..	605.0	2489.0	78349.0	464524.5
Growth rate in money (%)	129.6	239.6	69.4	53.3	57.2	90.2	43.9	..	..	..	14.9	25.3	118.4	61.2
Inflation tax (as % of GDP)	4.4	10.2	10.1	9.0	7.0	7.6	5.1	..	..	..	8.8	10.6	7.7	7.2
Total revenue (mn pounds)	20.1	21.4	45.9	126.4	522.2	1030.9	1855.0	2241.0	3033.0	3532.0	..	..	23.4	883.6
Total expenditure (mn pounds)	143.5	275.8	511.4	794.1	1196.2	2436.5	3017.0	5204.0	5856.0	7225.0	..	..	241.3	1861.0
Deficit/surplus (mn pounds)	-123.4	-254.4	-465.5	-667.7	-674.0	-1405.6	-1162.0	-2963.0	-2823.0	-3693.0	..	..	-217.9	-977.3

Source: Data on monetary indicators are from International Monetary Fund, *International financial Statistics Yearbook, 1997* (Washington, D.C., 1997); fiscal data are from ESCWA, *Statistical Abstract of the ESCWA Region* (various issues).

a/ Nominal effective exchange rate.

b/ Real effective exchange rate.

ANNEX TABLE 11. IRAQ: KEY ECONOMIC INDICATORS, 1963-1995

	1963	1964	1965	1966	1967	1968	1969	1970	1971
GDP (mn ID[a])	670.6	783.5	887.9	946.1	856.9	1000.6	955.5	1171.9	1366.4
Real GDP (mn ID)	670.6	793.0	903.2	943.3	827.1	944.9	853.9	1003.3	1129.3
Growth rate of real GDP	..	18.3	13.9	4.4	-12.3	14.2	-9.6	17.5	12.6
CPI 1963=100	63.2	62.5	62.5	63.4	65.5	66.9	70.7	74.0	76.8
Change in CPI	..	-1.1	0.0	1.4	3.3	2.1	5.7	4.7	3.8
Population (million)	..	..	..	..	8.6	8.9	0.2	9.4	9.8
Real GDP/capita (ID)	..	..	..	..	96.4	106.6	5692.7	106.3	115.8
Real GDP/capita growth (%)	..	..	..	..	..	10.6	5237.8	-98.1	9.0
Official exchange rate (US$/ID)	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Real GDP/capita (US$)	..	..	..	..	310.1	343.1	18312.7	341.9	372.6
M1	129.2	129.2	144.9	155.2	166.1	178.9	205.4	217.7	227.1
Growth of M1	..	0.0	12.2	7.1	7.0	7.7	14.8	6.0	4.3
Change in M1	..	0.0	15.7	10.3	10.9	12.8	26.5	12.3	9.4
Inflation tax (M1 as % of GDP)	..	0.0	1.8	1.1	1.3	1.3	2.8	1.0	0.7

	1972	1973	1974	1975	1976	1977	1978	1979	1980
GDP (mn ID[a])	1369.5	1555.2	3400.9	3974.3	5243.0	5858.2	7017.0	11167.2	15770.7
Real GDP (mn ID)	1075.8	1182.7	2351.9	2512.2	3002.9	3114.4	3632.0	5307.6	15770.7
Growth rate of real GDP	-4.7	9.9	98.9	6.8	19.5	3.7	16.6	46.1	197.1
CPI 1963=100	80.8	84.7	91.3	100.0	112.8	123.1	128.7	142.4	165.5
Change in CPI	5.2	4.8	7.8	9.5	12.8	9.1	4.5	10.6	..
Population (million)	10.1	10.4	10.8	11.1	11.5	12.0	12.4	12.8	13.2
Real GDP/capita (ID)	106.8	113.6	218.4	225.9	260.9	258.9	292.7	414.0	1191.1
Real GDP/capita growth (%)	-7.8	6.3	92.2	3.5	15.5	-0.8	13.0	41.5	187.7
Official exchange rate (US$/ID)	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Real GDP/capita (US$)	343.7	365.5	702.5	726.8	839.3	832.8	941.5	1331.8	3831.8
M1	259.6	322.6	462.4	625.6	754.8	864.4	1245.1	1393.8	2650.2
Growth of M1	14.3	24.3	43.3	35.3	20.7	14.5	44.0	11.9	90.1
Change in M1	32.5	63.0	139.8	163.2	129.2	109.6	380.7	148.7	1256.4
Inflation tax (M1 as % of GDP)	2.4	4.1	4.1	4.1	2.5	1.9	5.4	1.3	8.0

ANNEX TABLE 11 *(continued)*

	1981	1982	1983	1984	1985	1986	1987	1988	1989
GDP (mn ID[a/])	11346.9	12714.7	12621.0	14550.9	15011.8	14652.0	17600.0	19432.2	20407.9
Real GDP (mn ID)	9471.5	9355.9	8281.5	8856.3	8763.5	8445.0	8902.4	8096.8	7999.9
Growth rate of real GDP	-39.9	-1.2	-11.5	6.9	-1.0	-3.6	5.4	-9.0	-1.2
CPI (1963=100)	184.2	224.9	252.3	271.6	283.5	287.2	327.6	397.3	422.2
Change in CPI	11.3	22.1	12.2	7.6	4.4	1.3	14.1	21.3	6.3
Population (million)	13.7	14.1	14.6	15.1	15.6	16.1	16.3	17.3	17.6
Real GDP/capita (ID)	692.9	663.1	567.6	587.3	562.5	524.2	545.2	469.4	455.8
Real GDP/capita growth (%)	-41.8	-4.3	-14.4	3.5	-4.2	-6.8	4.0	-13.9	-2.9
Official exchange rate (US$/ID)	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Real GDP/capita US$	2228.9	2133.0	1826.0	1889.2	1809.5	1686.3	1753.7	1509.9	1466.4
M1	3645.5	4980.7	5527.1	5499.2	5777.0	6726.6	8332.3	9561.9	11301.6
Growth of M1	37.6	36.6	11.0	-0.5	5.1	16.4	23.9	14.8	18.2
Change in M1	995.3	1335.2	546.4	-27.9	277.8	949.6	1605.7	1229.6	1739.7
Inflation tax (M1 as % of GDP)	8.8	10.5	4.3	-0.2	1.9	6.5	9.1	6.3	8.5

	1990	1991	1992	1993	1994	1995	1970-1979	1981-1990	1991-1995
GDP (mn ID[a/])	22848.0	21312.3	59348.2	122997.2	630006.1	2658696.7	4212.4	16118.5	698472.1
Real GDP (mn ID)	5903.9	1922.1	2912.8	2877.1	2842.6	515.2	2431.2	8407.7	2214.0
Growth rate of real GDP	-26.2	-67.4	51.5	-1.2	-1.2	-81.9	22.7	-8.1	-20.0
CPI (1963=100)	640.4	1827.9	3358.9	8118.5	60024.6	275910.2	101.5	329.1	69848.0
Change in CPI	51.7	185.4	83.8	141.7	639.4	359.7	7.3	15.2	282.0
Population (million)	18.1	18.6	19.0	19.5	19.9	20.5	11.0	15.8	19.5
Real GDP/capita (ID)	326.5	103.6	153.2	147.9	142.7	25.2	211.3	539.4	114.5
Real GDP/capita growth (%)	-28.4	-68.3	48.0	-3.5	-3.5	-82.3	7.4	-10.9	-21.9
Official exchange rate (US$/ID)	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Real GDP/capita US$	1050.5	333.1	492.9	475.9	459.1	81.0	679.8	1735.3	368.4
M1	15855.3	24540.0	42760.2	72553.1	235000.0	650000.0	637.3	7720.7	204970.7
Growth of M1	40.3	54.8	74.2	69.7	223.9	176.6	21.9	20.3	119.8
Change in M1	4553.7	8684.7	18220.2	29792.9	162446.9	415000.0	118.8	1320.5	126828.9
Inflation tax (M1 as % of GDP)	19.9	40.7	30.7	24.2	25.8	15.6	2.7	7.6	27.4

Source: Data are from Fuad Al-Dahwi, "Inflation in Iraq: causes and effects (1970-1998)", a paper prepared for ESCWA in November 1998.

a/ Iraqi dinars.

ANNEX TABLE 12. SAUDI ARABIA: REGRESSION RESULTS, 1973-1996

Regression statistics	
Multiple R	0.939727336
R Square	0.883087466
Adjusted R Square	0.858474301
Standard Error	3.879339741
Observations	24

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	2159.79	539.947	35.8786	1.31013
Residual	19	285.936	15.0492		
Total	23	2445.72			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-47.62546052	21.0640	-2.26098	0.03568	-91.7130	-3.53786	-91.7130	-3.53786
X Variable 1	0.382908201	0.03421	11.1897	8.35803	0.31128	0.45453	0.31128	0.45453
X Variable 2	0.031744508	0.01464	2.16730	0.04312	0.00108	0.06240	0.00108	0.06240
X Variable 3	0.032022117	0.05381	0.59500	0.55886	-0.08062	0.14466	-0.08062	0.14466
X Variable 4	12.57946198	5.77379	2.17871	0.04214	0.49477	24.6641	0.49477	24.6641

Y=CPI, X1=M1, X2=OIL prices, M3=NO-OIL prices, X4=EXCHANGE RATE (1973-1996)

RESIDUAL OUTPUT			PROBABILITY OUTPUT	
Observations	*Predicted Y*	*Residuals*	*Percentile*	*Y*
1	16.60353941	-0.10353	2.08333	-3.17460
2	20.77236408	0.55116	6.25	-3.07692
3	31.86826936	2.67718	10.4166	-1.60832
4	24.71415184	6.81737	14.5833	-1.53688
5	19.3842132	-7.96868	18.75	-1.53688
6	4.917450653	-6.45433	22.9166	-0.09532
7	3.663150178	-1.89415	27.0833	0.18957
8	-1.807929157	5.69340	31.25	0.56657
9	4.006463732	-1.25055	35.4166	0.93652
10	0.672793388	0.38084	39.5833	1.03092
11	-3.17148335	3.36105	43.75	1.04961
12	-3.653768419	2.04544	47.9166	1.05363
13	-2.858899541	-0.21802	52.0833	1.16383
14	-0.0036756	-3.17092	56.25	1.76899
15	2.569619385	-4.10650	60.4166	2.04081

ANNEX TABLE 12 (*continued*)

RESIDUAL OUTPUT				PROBABILITY OUTPUT	
Observations	*Predicted Y*	*Residuals*		*Percentile*	*Y*
16	0.868571189	0.06795		64.5833	2.75590
17	-0.739169086	1.77009		68.75	3.88548
18	4.615212572	-2.57439		72.9166	4.88262
19	5.586776208	-0.68677		77.0833	4.9
20	0.539537647	-0.63486		81.25	11.4155
21	-1.430113213	2.47973		85.4166	16.5
22	1.022481081	-0.45590		89.5833	21.3235
23	-0.339377127	5.22200		93.75	31.5315
24	2.71142109	-1.54758		97.9166	34.5454

DATA SET

	CPI (annual percentage change)	*M1 %*	*Oil prices %*	*Non-oil prices*	*% Exchange rate (riyals/US$)*
1973	16.5	39.9	10.7142	61.9512	3.70
1974	21.32352941	38.5633	261.290	21.2349	3.55
1975	34.54545455	93.4515	-5.35714	-16.3975	3.53
1976	31.53153153	71.1565	11.3207	10.2526	3.53
1977	11.41552511	58.2612	8.47457	10.6469	3.505
1978	-1.536885246	28.1176	0.78125	1.58343	3.315
1979	1.768990635	11.1562	126.356	21.1031	3.365
1980	3.885480573	7.78793	25.6849	6.03960	3.325
1981	2.755905512	23.7788	-3.81471	-9.71055	3.415
1982	1.053639847	14.7985	-8.21529	-9.92761	3.435
1983	0.18957346	1.37264	-8.45679	7.23306	3.495
1984	-1.608325449	-2.29600	-3.91099	0.10706	3.575
1985	-3.076923077	-1.38587	-4.21052	-13.1550	3.645
1986	-3.174603175	5.43810	-47.9853	-1.47783	3.745
1987	-1.536885246	4.93741	28.1690	9.375	3.745
1988	0.936524454	3.19195	-19.2307	24.1142	3.745
1989	1.030927835	-2.19415	21.0884	-1.65745	3.745
1990	2.040816327	11.5561	28.6516	-6.36704	3.745
1991	4.9	17.7163	-15.7205	-5.7	3.745
1992	-0.095328885	2.875	-1.55440	0.10604	3.745
1993	1.049618321	-1.57958	-11.5789	1.80084	3.745
1994	0.566572238	3.40740	-5.35714	12.5910	3.745
1995	4.882629108	-0.93123	7.54716	9.14972	3.745
1996	1.163831692	6.93339	19.2982	-1.27011	3.745

ANNEX TABLE 13. IRAQ: REGRESSION RESULTS, 1981-1995

Regression statistics	
Multiple R	0.95962
R Square	0.92088
Adjusted R Square	0.91480
Standard Error	52.4363
Observations	15

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	416080.7	416080.7	151.325	1.55100
Residual	13	35744.4	2749.57		
Total	14	451825.2			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-39.1405	17.8817	-2.18885	0.04745	-77.7717	-0.50940	-77.7717	-0.50940
X Variable 1	2.68610	0.21835	12.3014	1.55100	2.21437	3.15783	2.21437	3.15783

Y=CPI, XI=M1 for 1981-1995

RESIDUAL OUTPUT			PROBABILITY OUTPUT	
Observations	*Predicted Y*	*Residuals*	*Percentile*	*Y*
1	61.7378	-41.9378	3.33333	1.28429
2	59.2406	-45.8015	10	4.26049
3	-9.67306	21.8143	16.6666	6.29166
4	-40.4964	48.3048	23.3333	7.80839
5	-25.5713	29.8318	30	12.1412
6	5.01254	-3.72824	36.6666	13.4390
7	24.9791	-11.0310	43.3333	13.9481
8	0.49836	20.8976	50	19.8
9	9.73064	-3.43897	56.6666	21.3960
10	69.0893	-17.3841	63.3333	51.7052

ANNEX TABLE 13 *(continued)*

RESIDUAL OUTPUT			PROBABILITY OUTPUT	
Observations	*Predicted Y*	*Residuals*	*Percentile*	*Y*
11	107.990	78.5214	70	83.7572
12	160.294	-76.5372	76.6666	141.703
13	148.012	-6.30902	83.3333	186.511
14	562.280	90.6225	90	351.389
15	435.214	-83.8246	96.6666	652.902

DATA SET

	CPI	M1
1981	19.8	37.5556
1982	13.4390	36.6259
1983	12.1412	10.9703
1984	7.80839	-0.50478
1985	4.26049	5.05164
1986	1.28429	16.4375
1987	13.9481	23.8709
1988	21.3960	14.7570
1989	6.29166	18.1940
1990	51.7052	40.2925
1991	186.511	54.7747
1992	83.7572	74.2469
1993	141.703	69.6743
1994	652.902	223.900
1995	351.389	176.595

ANNEX TABLE 14. IRAQ: REGRESSION RESULTS, 1981-1988

Regression statistics								
Multiple R	0.52001							
R Square	0.27041							
Adjusted R Square	0.14882							
Standard Error	6.49426							
Observations	8							
ANOVA								
	df	*SS*	*MS*	*F*	*Significance F*			
Regression	1	93.7931	93.7931	2.22388	0.18648			
Residual	6	253.052	42.1754					
Total	7	346.845						
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	6.96546	3.95061	1.76313	0.12833	-2.70135	16.6322	-2.70135	16.6322
X Variable 1	0.26494	0.17766	1.49126	0.18648	-0.16978	0.69966	-0.16978	0.69966

Y=CPI, X1=M1 for 1981-1988

ANNEX TABLE 15. IRAQ: REGRESSION RESULTS, 1989-1995

Regression statistics								
Multiple R	0.95							
R Square	0.91							
Adjusted R Square	0.89							
Standard Error	73.42							
Observations	7.00							
ANOVA								
	df	*SS*	*MS*	*F*	*Significance F*			
Regression	1.00	276905.03	276905.03	51.37	0.00			
Residual	5.00	26953.92	5390.78					
Total	6.00	303858.95						
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-54.24	46.21	-1.17	0.29	-173.03	64.56	-173.03	64.56
X Variable 1	2.82	0.39	7.17	0.00	1.81	3.83	1.81	3.83
Y=CPI, X1=M1 GROWTH for 1988-1995								
DATA SET								
	CPI	Growth of M1						
1989	6.29	18.19						
1990	51.71	40.29						
1991	186.51	54.77						
1992	83.76	74.25						
1993	141.70	69.67						
1994	652.90	223.90						
1995	351.39	176.60						

ANNEX TABLE 16. LEBANON: REGRESSION RESULTS, 1976-1993

Regression statistics	
Multiple R	0.98178
R Square	0.96389
Adjusted R Square	0.95615
Standard Error	23.2872
Observations	18

ANOVA

	Df	SS	MS	F	Significance F
Regression	3	202690.0	67563.3	124.587	2.47274
Residual	14	7592.13	542.295		
Total	17	210282.2			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-7.18602	7.85328	-0.91503	0.37566	-24.0296	9.65761	-24.0296	9.65761
X Variable 1	0.81529	0.05553	14.6801	6.76636	0.69617	0.93440	0.69617	0.93440
X Variable 2	0.50299	0.11449	4.39328	6.12687	0.25743	0.74855	0.25743	0.74855
X Variable 3	0.34779	0.16487	2.10948	0.05338	-0.00582	0.70140	-0.00582	0.70140

Y=CPI, X1=change in nominal exchange rate, X2= change in M1, X3=change in oil prices

RESIDUAL OUTPUT			PROBABILITY OUTPUT	
Observations	*Predicted Y*	*Residuals*	*Percentile*	*Y*
1	34.7809	-5.69008	2.77777	7.17821
2	7.59274	11.4213	8.33333	10.0591
3	-2.84260	12.9017	13.8888	17.5519
4	40.5604	-16.9045	19.4444	18.8235
5	16.3830	7.53000	25	19.0140
6	20.8524	-1.55421	30.5555	19.2982
7	18.5646	0.25889	36.1111	23.6559
8	-6.47322	13.6514	41.6666	23.9130
9	34.5755	-17.0236	47.2222	29.0524
10	136.423	-67.0719	52.7777	29.0909
11	103.020	-7.54505	58.3333	51.4616
12	463.108	24.0721	63.8888	68.8157
13	173.637	-18.6445	69.4444	69.3516
14	52.5143	19.6882	75	72.2026

ANNEX TABLE 16 *(continued)*

RESIDUAL OUTPUT			PROBABILITY OUTPUT	
Observations	*Predicted Y*	*Residuals*	*Percentile*	*Y*
15	62.1627	6.65304	80.5555	95.4756
16	43.4379	8.02366	86.1111	119.986
17	106.569	13.4166	91.6666	154.992
18	12.2356	16.8167	97.2222	487.181

DATA SET				
	CPI (annual percentage change)	*Nom. exchange % change*	*M1 %*	*% chg. oil*
1976	29.0909	26.0869	33.3228	11.3207
1977	19.0140	6.89655	12.3433	8.47457
1978	10.0591	-3.22580	13.3235	0.78125
1979	23.6559	6.66666	-3.25037	126.356
1980	23.9130	6.25	18.9671	25.6849
1981	19.2982	26.4705	15.4752	-3.81471
1982	18.8235	9.30232	41.7970	-8.21529
1983	7.17821	-4.25531	14.1618	-8.45679
1984	17.5519	44.4444	13.6912	-3.91099
1985	69.3516	152.307	41.5489	-4.21052
1986	95.4756	134.146	34.8460	-47.9853
1987	487.181	484.895	129.556	28.1690
1988	154.992	82.1905	239.569	-19.2307
1989	72.2026	21.3831	69.4486	21.0884
1990	68.8157	39.9436	53.3167	28.6516
1991	51.4616	33.5347	57.1593	-15.7205
1992	119.986	84.5291	90.2204	-1.55440
1993	29.0524	1.66978	43.9116	-11.5789

ANNEX TABLE 17. ESCWA MEMBERS: CONSUMER PRICE INDICES FOR FOOD, 1985-1996

Index (1992 = 100)	Weight[a]	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
More diversified economies													
Egypt (urban)	30.2	29.6	36.9	45.2	54.6	68.3	79.2	93.4	100.0	109.1	119.2	137.5	147.5
Iraq	2.0	7.5	7.5	9.2	11.4	12.2	16.0	58.0	100.0	315.3	1087.8	1593.1[b]	..
Jordan	3.0	57.0	57.8	57.4	60.3	73.1	87.6	96.8	100.0	101.9	107.9	110.4	118.0
Lebanon (Beirut)	3.7	0.7	1.3	7.1	15.8	23.3	37.9	56.1	100.0	120.5	131.3	134.0[b]	..
Palestine	..	..	..	..	..	..	..	..	100.0	110.7	120.6	136.1[c]	..
Syrian Arab Republic (Damascus)	8.6	21.2	30.1	49.2	68.5	74.3	88.5	93.8	100.0	111.5	129.2	137.2	141.6
Yemen (Sana'a)	3.4	..	..	..	..	..	..	79.5	100.0	136.3	207.6	335.1	435.7
Former People's Democratic Republic of Yemen (Aden)	0.7	32.3	32.5	33.5	33.5	42.1	..	..	..	..	..	..	..
Former Yemen Arab Republic	2.7	16.0	19.8	23.3	24.5	29.4	..	..	..	..	..	..	..
GCC countries													
Bahrain	1.0	102.7	102.3	98.0	97.0	97.8	97.9	99.9	100.0	99.7	98.7	104.8	..
Kuwait	7.0	76.9	77.2	75.8	76.0	78.9	81.3	102.5	100.0	95.5	97.2	99.2	..
Oman	1.9	87.3	94.5	95.2	96.7	98.1	97.7	100.9	100.0	98.4	97.5	103.0	101.9
Qatar (Doha)	1.3	92.2	92.9	94.2	96.1	100.1	101.6	107.8	100.0	92.8	88.1	97.9	..
Saudi Arabia	30.6	88.7	87.4	86.1	86.2	88.2	89.7	96.3	100.0	101.3	99.7	100.2	102.3
United Arab Emirates (Abu Dhabi)	7.4	91.6	91.2	90.9	92.6	91.4	90.6	92.6	100.0	103.0	108.1	116.0	116.0
Average	100.0	56.5	59.4	63.3	68.5	74.8	81.2	92.9	100.0	110.2	132.8	154.6	..

ANNEX TABLE 17 *(continued)*

Annual percentage change	Weights	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
More diversified economies													
Egypt (urban)	30.2	..	24.5165	22.749	20.606	25.274	15.849	18.011	7.0205	9.05	9.26180	15.3755	7.2888630
Iraq	2.0	..	0.7	23.1	23.5	7.1	30.4	263.5	72.5	215.3	245.0	46.5	..
Jordan	3.0	..	1.4	-0.8	5.2	21.2	19.8	10.5	3.3	1.9	5.9	2.3	6.9
Lebanon (Beirut)	3.7	..	100.0	438.6	122.4	47.5	62.7	48.0	78.1	20.5	9.0	2.1	..
Palestine	..	..	..	..	..	..	..	..	..	10.7	9.0	12.8	..
Syrian Arab Republic (Damascus)	8.6	..	41.8	63.7	39.1	8.5	19.0	6.0	6.6	11.5	15.9	6.2	3.2
Yemen (Sana'a)	3.4	..	..	..	..	..	..	94.7	25.7	36.:	52.4	61.4	30.0
Former People's Democratic Republic of Yemen (Aden)	0.7	..	0.7	3.2	0.0	25.7	..	..	..	..	..	..	..
Former Yemen Arab Republic	2.7	..	24.0	17.6	5.5	19.9	..	..	..	..	..	..	..
GCC countries													
Bahrain	1.0	..	-0.4	-4.3	-1.0	0.8	0.1	2.1	0.1	-0.3	-1.0	6.2	..
Kuwait	7.0	..	0.4	-1.8	0.3	3.7	3.1	26.1	-2.5	-4.5	1.7	2.1	..
Oman	1.9	..	8.3	0.7	1.6	1.4	-0.4	3.3	-0.9	-1.6	-1.0	5.7	-1.1
Qatar (Doha)	1.3	..	0.7	1.4	1.9	4.2	1.5	6.0	-7.2	-7.2	-5.1	11.1	..
Saudi Arabia	30.6	..	-1.5	-1.5	0.1	2.3	1.7	7.4	3.8	1.3	-1.5	0.4	2.2
United Arab Emirates (Abu Dhabi)	7.4	..	-0.4	-0.3	1.8	-1.3	-0.9	2.2	8.0	3.0	4.9	7.4	-0.0
Average	100.0	..	5.0	6.7	8.1	9.3	8.5	14.4	7.7	10.2	20.6	16.4	..

Source: ESCWA, *Statistical Abstract of the ESCWA Region*, fifteenth issue (E/ESCWA/STAT/1995/25) and seventeenth issue (E/ESCWA/STAT/1997/8).

a/ Computed by taking the ratio of the item of expenditures in food, beverages and tobacco to private final expenditure; from this value, the weights are derived.

b/ ESCWA estimates.

c/ Source estimates.

ANNEX TABLE 18. ESCWA MEMBERS: CONSUMER PRICE INDICES FOR CLOTHING, 1985-1996

Index (1992 = 100)	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
GCC countries												
Bahrain	113.86	111.85	104.13	102.75	101.48	100.35	100.00	100.00	102.43	105.71	108.36	..
Kuwait	68.20	69.46	72.29	78.26	83.24	94.66	101.07	100.00	108.72	117.79	121.97	..
Oman (Muscat)	..	..	..	..	98.74	101.11	103.24	100.00	99.39	98.08	99.09	98.48
Qatar (Doha)	72.73	74.71	77.18	82.37	85.42	87.89	92.67	100.00	103.63	108.10	112.22	..
Saudi Arabia	109.07	105.95	103.73	100.81	98.89	98.99	98.79	100.00	99.09	97.28	96.47	94.86
United Arab Emirates (Abu Dhabi)	85.11	85.63	85.63	92.77	90.55	87.49	87.32	100.00	103.90	106.66	120.66	115.00
More diversified economies												
Egypt (urban)	45.71	47.05	49.07	50.30	52.87	81.60	83.91	100.00	107.60	111.37	124.73	139.81
Iraq	11.07	11.16	11.36	12.86	14.52	16.80	42.19	100.00	347.35	1198.37	1755.08	..
Jordan	39.51	35.69	37.04	38.58	63.31	82.73	92.11	100.00	105.30	109.10	117.30	127.00
Lebanon (Beirut)	..	..	..	..	..	..	..	..	..	..	..	..
Palestine	..	..	..	..	..	..	..	100.00	108.09	114.27	123.87	..
Syrian Arab Republic (Damascus)	20.71	27.59	48.82	60.56	65.88	73.88	84.63	100.00	115.87	128.13	136.01	182.13
Yemen (Sana'a)	..	..	..	..	..	48.08	67.84	100.00	131.28	145.81	197.80	284.58
Former People's Democratic Republic of Yemen (Aden)	39.01	39.01	39.01	39.01	39.01	..	..	..	..	..	..	..
Former Yemen Arab Republic	14.42	8.76	28.11	35.72	41.53	..	..	..	..	..	..	..
Annual percentage change	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
GCC countries												
Bahrain	..	-1.77	-6.90	-1.33	-1.24	-1.11	-0.35	0.00	2.43	3.20	2.50	..
Kuwait	..	1.84	4.07	8.26	6.36	13.72	6.78	-1.06	8.72	8.35	3.55	..
Oman (Muscat)	..	..	..	..	..	2.40	2.11	-3.14	-0.61	-1.32	1.03	-0.62
Qatar (Doha)	..	2.72	3.31	6.72	3.70	2.89	5.44	7.91	3.63	4.31	3.81	..
Saudi Arabia	..	-2.87	-2.09	-2.82	-1.90	0.10	-0.20	1.22	-0.91	-1.83	-0.83	-1.67
United Arab Emirates (Abu Dhabi)	..	0.61	0.00	8.34	-2.39	-3.38	-0.19	14.52	3.90	2.66	13.13	-4.69
More diversified economies												
Egypt (urban)	..	2.93	4.29	2.51	5.11	54.34	2.83	19.18	7.60	3.50	12.00	12.09
Iraq	..	0.81	1.79	13.20	12.91	15.70	151.13	137.02	247.35	245.00	46.46	
Jordan	..	-9.67	3.78	4.16	64.10	30.67	11.34	8.57	5.30	3.61	7.52	8.27
Lebanon (Beirut)	..	..	..	..	..	..	..	..	..	..	..	..
Palestine	..	..	..	..	..	..	..	..	8.09	5.72	8.40	..
Syrian Arab Republic (Damascus)	..	33.22	76.95	24.05	8.78	12.14	14.55	18.16	15.87	10.58	6.15	33.91
Yemen (San'a)	..						41.10	47.40	31.28	11.07	35.65	43.87
Former People's Democratic of Yemen (Aden)	..	0.00	0.00	0.00	0.00	..	..	..	..	..	..	..
Former Yemen Arab Republic	..	-39.25	220.89	27.07	16.27	..	..	..	..	..	..	..

Source: ESCWA, *Statistical Abstract of the ESCWA Region*, various issues.

ANNEX TABLE 19. ESCWA MEMBERS: CONSUMER PRICE INDICES FOR FUEL AND LIGHTING, 1985-1996

Index (1992 = 100)	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
GCC countries												
Bahrain	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	..
Kuwait	99.72	99.72	96.03	92.72	92.06	97.73	100.25	100.00	100.17	98.59	100.00	..
Oman (Muscat)	..	..	..	..	78.62	102.67	99.49	100.00	99.49	100.10	100.72	100.62
Qatar (Doha)	..	..	..	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	..
Saudi Arabia	..	..	..	..	..	125.64	127.11	100.00	90.84	90.84	142.12	142.12
United Arab Emirates (Abu Dhabi)	107.38	108.28	103.93	110.92	94.92	103.62	94.29	100.00	100.00	99.90	100.00	..
More diversified economies												
Egypt (urban)	..	..	..	..	..	..	67.16	100.00	123.77	134.00	137.71	138.88
Iraq	60.86	63.42	67.45	67.45	68.17	68.40	92.65	100.00	156.85	541.12	792.50	..
Jordan	87.14	84.60	82.91	82.99	85.36	89.42	97.04	100.00	106.00	109.40	109.40	112.60
Lebanon (Beirut)	..	..	..	..	..	..	..	..	..	..	..	..
Palestine	..	..	..	..	..	..	..	100.00	104.11	99.40	101.89	..
Syrian Arab Republic (Damascus)	28.50	35.42	40.04	50.79	65.77	67.11	77.85	100.00	102.01	138.26	183.89	171.14
Yemen (Sana'a)	..	..	..	..	..	76.84	97.50	100.00	102.50	118.33	173.33	247.50
Former People's Democratic Republic of Yemen (Aden)	72.42	72.61	72.98	72.98	78.99	..	..	..	..	..	..	..
Former Yemen Arab Republic	26.67	37.54	39.63	53.76	66.89	..	..	..	..	..	..	..
Annual percentage change	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
GCC countries												
Bahrain	..	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	..
Kuwait	..	0.00	-3.70	-3.45	-0.70	6.15	2.58	-0.25	0.17	-1.57	1.43	..
Oman (Muscat)	..	..	..	..	..	30.59	-3.10	0.52	-0.51	0.62	0.62	-0.10
Qatar (Doha)	..	..	..	..	0.00	0.00	0.00	0.00	0.00	0.00	0.00	..
Saudi Arabia	..	..	..	..	..	..	1.17	-21.33	-9.16	-0.00	56.45	-0.00
United Arab Emirates (Abu Dhabi)	..	0.84	-4.02	6.73	-14.42	9.17	-9.00	6.06	0.00	-0.10	0.10	..
More diversified economies												
Egypt (urban)	..	..	..	..	..	..	..	48.90	23.77	8.27	2.77	0.85
Iraq	..	4.21	6.35	0.00	1.07	0.34	35.45	7.93	56.85	244.99	46.46	..
Jordan	..	-2.91	-2.00	0.10	2.86	4.76	8.52	3.05	6.00	3.21	0.00	2.93
Lebanon (Beirut)	..	..	..	..	..	..	..	..	..	..	..	..
Palestine	..	..	..	..	..	..	..	..	4.11	-4.52	2.51	..
Syrian Arab Republic (Damascus)	..	24.28	13.04	26.85	29.49	2.04	16.00	28.45	2.01	35.54	33.00	-6.93
Yemen (Sana'a)	..	..	..	..	..	..	26.89	2.56	2.50	15.45	46.48	42.79
Former People's Democratic Republic of Yemen (Aden)	..	0.26	0.51	0.00	8.24	..	..	..	..	..	..	..
Former Yemen Arab Republic	..	40.76	5.57	35.65	24.42	..	..	..	..	..	..	..

Source: ESCWA, *Statistical Abstract of the ESCWA Region*, various issues.

ANNEX TABLE 20. ESCWA MEMBERS: INFLATION TRENDS, 1986-1996

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
ESCWA members[a/]	1.2	4.4	5.8	6.5	7.7	9.3	8.1	9.9	15.8	14.4	8.5
Gulf Cooperation Council countries[b/]	-2.4	-0.3	1.3	2.0	2.9	4.0	2.3	1.6	1.7	4.2	1.9
More diversified economies[c/]	20.7	25.0	21.7	19.7	19.0	19.7	16.9	22.4	33.7	22.1	12.6
Yemen[d/]	14.4	11.2	4.6	13.5	39.2	46.1	52.7	32.2	39.8	58.5	28.7

Source: ESCWA, *Statistical Abstract of the ESCWA Region*, fifteenth issue (E/ESCWA/STAT/1995/25) and seventeenth issue (E/ESCWA/STAT/1997/8).

a/ Including Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi Arabia, the Syrian Arab Republic, the United Arab Emirates and Yemen.
b/ Including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.
c/ Including Egypt, Iraq, Jordan, Lebanon and the Syrian Arab Republic.
d/ The Yemen Arab Republic and the People's Democratic Republic of Yemen merged on 22 May 1990 to form a single State, Yemen.

ANNEX TABLE 21. ESCWA MEMBERS: CONSUMER PRICE INDICES, 1985-1996

Index (1992 = 100)	Weights[a]	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
GCC countries													
Bahrain	1.1	100.6	98.5	96.8	96.6	98.1	99.4	100.3	100.0	102.6	103.0	106.2	108.1[b]
Kuwait	7.6	77.7	78.5	79.0	80.2	82.9	91.0	100.6	100.0	100.4	102.9	105.7	109.3
Oman	2.8	80.9	81.8	84.0[b]	87.8[b]	90.8	94.7	99.1	100.0	101.1	100.5	99.3	99.6
Qatar (Doha)	1.7	80.3	81.3	83.5	87.3	90.2	92.9	97.0	100.0	99.1	100.4	103.4	104.0[b]
Saudi Arabia	36.2	96.8	93.8	92.3	93.1	94.0	96.0	100.4	100.0	100.8	101.5	106.6	107.5
United Arab Emirates (Abu Dhabi)	11.6	83.6	81.1	83.5	84.5	87.9	89.0	93.7	100.0	104.9	110.2	115.0	120.1
More diversified economies													
Egypt (urban)	22.4	30.1	36.9	44.2	51.9	63.0	73.6	89.0	100.0	112.8	121.3	140.7	151.2
Iraq	1.5	10.4	10.5	12.0	14.6	15.5	19.0	54.4	100.0	307.6	1061.3	1554.6[b]	1943.3[b]
Jordan	2.9	57.2	57.2	57.1	60.9	76.5	88.9	96.2	100.0	103.3	107.0	109.5	116.6
Lebanon (Beirut)	3.1	0.6	1.2	6.8	15.5	22.9	37.3	55.3	100.0	137.6	150.0	170.5	187.4
Palestine	..	..	..	..	..	..	..	..	100.0	106.8	116.0	127.4[c]	..
Syrian Arab Republic (Damascus)	6.8	21.8	29.7	47.4	63.8	74.4	82.6	90.1	100.0	113.2	130.6	140.5	143.8
Yemen (Sana'a)	2.1			27.6	30.9	35.3	44.8	78.4	100.0	132.2	184.8	293.0	377.2
Former People's Democratic Republic of Yemen (Aden)	0.5	40.4	40.8	40.8	41.9	41.9	..	..	..	..	..	..	..
Former Yemen Arab Republic	1.7	15.2	19.7	23.9	27.9	33.5	..	..	..	..	..	..	..
Average	100.0	66.0	66.8	69.8	73.8	78.9	84.5	93.6	100.0	109.9	127.2	145.5	157.8

Annual percentage change	Weights[a]	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
GCC countries													
Bahrain	1.1	..	-2.1	-1.8	-0.2	1.6	1.3	0.9	-0.3	2.6	0.4	3.1	1.8
Kuwait	7.6	..	1.0	0.6	1.5	3.3	9.8	10.5	-0.6	0.4	2.5	2.7	3.4
Oman	2.8	..	1.1	2.7	4.5	3.4	4.3	4.6	1.0	1.1	-0.7	-1.1	0.3
Qatar (Doha)	1.7	..	1.2	2.7	4.6	3.3	3.0	4.4	3.1	-0.9	1.3	3.0	0.6
Saudi Arabia	36.2	..	-3.2	-1.6	0.9	1.0	2.1	4.6	-0.4	0.8	0.6	5.0	0.9
United Arab Emirates (Abu Dhabi)	11.6	..	-3.0	3.0	1.2	4.0	1.2	5.4	6.7	4.9	5.0	4.4	4.4
More diversified economies		..											
Egypt (urban)	22.4	..	22.6	19.7	17.7	21.3	16.8	20.9	12.4	12.8	7.5	16.0	7.5
Iraq	1.5	..	1.3	14.0	21.4	6.3	22.5	186.5	83.8	207.6	245.0	46.5	25.0
Jordan	2.9	..	0.0	-0.2	6.6	25.8	16.1	8.2	4.0	3.3	3.6	2.3	6.5
Lebanon (Beirut)	3.1	..	100.0	466.7	127.9	47.7	62.9	48.3	80.8	37.6	9.0	13.7	9.9
Palestine	...	..	..	..	..	..	..	..	..	6.8	8.6	9.8	..
Syrian Arab Republic (Damascus)	6.8	..	36.0	59.5	34.6	16.6	11.1	9.0	11.0	13.2	15.3	7.6	2.3
Yemen (Sana'a)	2.1	..	..	..	12.2	14.3	26.8	74.9	27.6	32.2	39.8	58.5	28.7
Former People's Democratic Republic of Yemen (Aden)	0.5	..	0.8	0.0	2.8	0.0	..	..	..	..	..	..	..
Former Yemen Arab Republic	1.7	..	29.3	21.8	16.4	20.1	..	..	..	..	..	..	..
Average	100.0	..	1.2	4.4	5.8	6.9	7.1	10.7	6.9	9.9	15.8	14.4	8.5

Source: ESCWA, *Statistical Abstract of the ESCWA Region*, fifteenth issue (E/ESCWA/STAT/1995/25) and seventeenth issue (E/ESCWA/STAT/1997/8).

a/ Based on private final consumption expenditure in 1992.
b/ ESCWA estimates.
c/ Source estimate.