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SURVEY
OF ECONOMIC AND SOCIAL DEVELOPMENTS
IN THE ESCWA REGION
1985

SUMMARY

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SUMMARY

The world economy grew by an estimated 3.1 percent in 1985 after recording an outstanding performance of 4.5 percent in 1984. Likewise, world trade, which had increased by an impressive 8.5 percent in 1984, rose by only 3 percent in 1985. The world economy needs to grew at more rapid rates, and to be more evenly spread, in order to make up for the devastating effects of the recession.of the early 1980s.

The unemployment rate in developed countries fell only marginally, to 8.2 percent in 1985, thus remaining significantly higher than the ones prevailing prior to the recession. The unemployment problem in developed countries, particularly in Western Europe, remains severe primarily due to structural rigidities in their economies. Labour market conditions in most developing countries remain poor. The unemployment problem in many developing countries, particularly in Africa and Latin America, is aggrevated by high rates of population growth. In the major oil exporting countries of the ESCWA region, declining oil revenues continue to precipitate significant reductions in the number of expatriate workers, many of whom are from other countries of the region. The unemployment situation is therefore expected to become more problematic, particularly for Egypt, Jordan and the two Yemens.

Inflation rates continued to fall in developed countries reaching a group average of 3.9 percent in 1985; this trend is expected to continue in 1986 mainly as a consequence of sharply falling oil prices. On the other hand, even excluding some developing countries with inflation rates of three or more digits, the average inflation rate in the developing countries as a group was 15 percent in 1985. Lower revenues associated with lower oil prices and output, and the resulting budgetary constraints and recession, in most of ESCWA's major oil exporting countries during the past few years, have contributed to lower inflation rates significantly from the high levels of the 1970s.

The external debt position of developing countries continued to deteriorate in 1985, after recording significant improvements in 1984. The total external debt of developing countries is estimated to have increased from $829.5 billion in 1984 to $865.1 billion in 1985, and as a percent of their respective exports of goods and services from 150.7 percent to 157.1 percent. Recognizing that austerity measures implemented by indebted developing countries to curtail imports were not adequate for solving the problem, long-term proposals emphasizing growth have emerged. Co-ordinated monetary and fiscal policies are still required among developed market economies to stimulate demand for primary commodities, and to result in better alignment of exchange rates and lower interest rate charges on external debt.

The United States dollar declined sharply since February 1985 against other major currencies. The September decision of the "Group of Five", comprising the United States, Japan, the United Kingdom, the Federal Republic of Gemany and France, to intervene in the international financial market to lower the value of the dollar accelerated the dollar's decline. During the period from February 1985 to February 1986, the dollar depreciated in terms of the Japanese yen, German mark, British pound and French franc by 28.5 percent, 28.0 percent, 29.1 percent and 27.8 percent, respectively. Since oil payments are made primarily in dollars, the declining value of the dollar reduced further the purchasing power of the already shrinking oil revenues of ESCWA oil exporters in terms of other major currencies. This becomes most apparent when the combined oil revenues of Kuwait, Qatar and Saudi Arabia during January 1985 are compared with these of December of that year in terms of different currencies. While in terms of dollars these revenues were 6.0 percent higher in December than in January, they were lower by 15.9 percent, 15.4 percent, 15.9 percent and 17.3 percent in terms of the mark, yen, franc and pound, respectively. The decline in the value of the dollar in 1985 not only affected the purchasing power of current income flows of the ESCWA oil exporters, but also their substantial holdings of international reserves and foreing assets denominated in dollars.

With the slowing down in world economic growth and trade, protectionism in developed countries increased in 1985. In particularly the ESCWA region suffered from the imposition of the European Economic Community of a tariff on Saudi Arabia's petrochemical products. It is worth noting that Saudi Arabia - together with other Gulf countries - has invested billions of dollars in the petrochemical industry in an effort to diversify the country's exports and economy and that the industry was established primarily with the use of capital goods and expertise from the United States and Europe. In order to achieve optimal use of the world's resources every effort needs to be made to remove protectionist measures, regardless of the form in which they are applied. At the same time, other traditional major exports such as textiles and clothes continued to suffer from long standing arrangements and practices restricting their access to the markets of developed countries.

Oil demand has been generally weak since the second major oil price increase of 1979. Market economies demand for oil, which had fallen from its peak of 52.4 million barrels/day (b/d) in 1979 to 45.2 million b/d in 1983, rose to 46.1 million b/d in 1984 to decline again in 1985 to an estimated 45.6 m/b/d. Various factors have contributed to the general weakening of demand for oil. The 1981-1983 worldwide economic recession severely dampened the demand for energy in general. The significant world economic recovery achieved in 1984 did not continue at the same pace in 1985, thus the upsurge in energy, including oil demand in 1984 was not maintained in 1985. Furthermore, efforts have been made, particularly by major developed oil-importing countries, to lower oil consumption by becoming more energy efficient and by greater utilization of other sources of energy. Another major factor constraining the demand for oil since 1980 has been the rising value of the dollar (in which most oil payments are made) in terms of other major currencies. Thus while the average oil spot price per barrel was falling since 1981 in dollar terms, it was costing many oil consuming countries more in terms of their own currencies. Though the dollar declined versus other major currencies since reaching its peak in February 1985, the income and substitution effects of relatively expensive oil were already underway. Other significant factors limiting the demand for oil in 1985 were the ending of the coal miners strike in the United Kingdom and further declines in the oil inventories. Demand for oil produced by the Organization of Oil Exporting Countries (OPEC), which includes major oil exporting countries in Western Asia, has been under additional pressures. Since the late 1970s and early 1980s non-OPEC oil producers have significantly raised their oil output levels, thereby reducing demand for oil from OPEC members. Moreover, the policy of major United States oil companies to replace oil purchases from OPEC by purchases from non-OPEC sources further constrained the demand for OPEC oil. Hence, ESCWA country members of OPEC have been suffering during this decade from a double squeeze, one from the growth of non-oil energy supplies and the other from the expansion of non-OPEC oil production.

Total world oil production declined by 1.8 percent in 1985 after a temporary recovery in 1984. Out of the world output average of 55.92 million b/d, the ESCWA region countries produced an average of 8.81 million b/d. Thus, ESCWA countries' share in world oil production fell in 1985 to 15.76 percent from its 1984 level of 17.39 percent. While the ESCWA region total oil production in 1985 declined by an estimated 11 percent from the previous year's level, some member countries recorded increase. Non-OPEC members such as Egypt and Oman, not confined by OPEC quotas, increased their production by 5.2 percent and 17.6 percent, respectively. Iraq, with the completion of its pipeline through Saudi Arabia, managed to increase its output by approximately 19 percent. The United Arab Emirates also increased its oil output by an estimated 6.4 percent in 1985. On the other hand, Kuwait, Qatar and Saudi Arabia produced far less oil in 1985 than they did in 1984. Kuwait's output of around one million b/d was 12.7 below its 1984 level. Qatar's output fell by 20.4 percent from its 0.37 million b/d in 1984 to 0.29 million b/d in 1985. The most severe decline in absolute and relative terms was experienced by Saudi Arabia. Its oil production fell from an average of 4.6 million b/d in 1984 to 3.3 million b/d; a reduction of 1.3 million b/d and representing a 27.9 percent decline. After allowing its oil output to fall to an average of 2.34 million b/d during the month of August, Saudi Arabia abandoned its role as OPEC's 'Swing Producer' and increased production starting September 1985 in order to meet its various financial obligations.

The 11 percent decline in oil production in Western Asia has sharply reduced the region's oil revenues. The combined oil revenues of the region's major oil-exporting countries, namely Iraq, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates were an estimated $71.2 billion in 1985, registering a decline of over $11 billion from the previous year. Due to the dominant role of oil and oil revenues in many countries of the region, the severety of these declines cannot be over emphasized. The negative effects of declining oil revenues in the major oil exporting countries in the ESCWA region were felt by expatriates working in those countries, as well as aid recipients and trading partners.

When it became clear that non-OPEC members were continuously increasing their share in the oil market and unwilling to co-operate, OPEC members decided in early December 1985 to depart from their self-imposed production quotas and focus instead on obtaining a "fair share" in the oil market. The immediate effect of such a change in policy was reflected in the tumbling of oil prices from around $28-30 a barrel in November 1985 to $12.5 a barrel in early March 1986.

A continued and sustained fall in oil prices would have numerous and far reaching effects. Oil production will be increased by many countries in order to compensate for declining revenues associated with lower prices. Unlike many major oil producers, ESCWA countries, with over half of the proven world oil reserves, can increase their oil production considerably and maintain it at a higher level for many years. Lower oil prices are expected to give a boost to the world economy as a whole and contribute to higher economic growth and lower inflation and interest rates in many countries. Nevetheless, this process will involve a transfer of income from oil exporting countries to the importing ones. Other than the United Kingdom, Norway and the Soviet Union, major oil-exporting countries are mostly developing countries, while the major importing countries are developed countries. Hence, there will be a transfer of income from developing to developed countries as a consequence of oil price declines. Another consequence of falling oil prices is an improvement in the current account position of oil-importing countries at the expense of the oil-exporting ones. This in turn will have major ramifications for many indebted developing countries. It is estimated that oil accounts for three-fourths of the export earnings of the main oil-exporting debtor developing countries but only for one third of the import costs of the oil-importing debtor developing countries. Thus, a drop in oil prices results in only a moderate improvement in the debt-servicing capacity of the oil importing developing countries, while severely damaging that of oil-exporting countries. Sharply falling oil prices would also lower demand for all other sources of energy. Research on and development of other sources of energy would be hindered and, simultaneously, oil exploration activities sharply reduced. If adequate measures are not taken, the world may be faced with another energy crisis in the near future.

The oil market can be expected to remain weak and vulnerable in 1986 and possibly through the early 1990s, when the ability of non-OPEC oil exporters to continue matching increases in world oil demand will be curtailed by limited reserves, thereupon additional oil demand will be met by OPEC members and primarily ESCWA countries, Saudi Arabia, Kuwait, Iraq and the United Arab Emirates. With over half of the world's proven oil reserves located in Western Asia, the region will continue to play a leading role in the international oil market.

The weakening of the external payments position of the major ESCWA oil producers and ensuing recession have had direct and indirect adverse implications for the rest of the region. The Gulf region, until recently, provided an expanding market for the non-oil countries exports, notably of manufactures, and labour, as well as a source of very substantial aid flows which exerted a determining influence on their external accounts.

The trade of the region with the outside world and among its own members continued to suffer from the prevailing overall political situation in the region and the state of bilateral relations between some countries. The uncertainties clouding the region's economic horizons stem largely from the ramifications of the Palestine problem, the intensification of the Iraqi-Iranian conflict and the deteriorating situation in Lebanon; the recent disruptive events in Democratic Yemen can be expected to weigh heavily on the country's economy and trade.

Intra-regional trade and payments flows have also suffered on account of the strained political relations between Iraq and the Syrian Arab Republic, the latter and Jordan, as well as from the consequences of the Arab boycott of Egypt following the Camp David Accords. However, efforts to resolve existing differences have made some progress recently as evidenced by the improved relations between Jordan and the Syrian Arab Republic, and the steps taken by Iraq and Jordan to expand trade and economic links with Egypt.

Total GDP of Western Asia is estimated to have been $234 billion in 1985, representing a decline of 0.9 percent from 1984. Economic developments and conditions in the ESCWA region in 1985 varied from one group of countries to another and among individual countries. The Gulf Co-operation Council (GCC) countries continued to depend heavily on the oil sector as the main source of income. The combined effects of the sharp drop in oil revenues of most GCC countries and the continuation of the Iraq-Iran war percipitated a slowdown in overall economic activity in the Gulf region. Mining, which had declined by 14 percent in 1984 is estimated to have declined further by 17.4 percent in 1985. The performance of the non-oil sector varied. Agriculture, which represented only 2.4 percent of GCC countries GDP in 1985, witnessed high growth rates of 10.1 percent in 1984 and 9 percent in 1985. Meanwhile, manufacturing, which accounted for 8.2 percent of GDP in 1985, grew by an estimated 4.6 percent in that year. On the other hand, the construction sector recorded negative growth rates in several countries of this group. The decline was mostly attributed to the completion of basic infrastructure projects and the decrease in demand for housing due to the acceleration in the departure of expatriate workers, as well as to the prevailing general recessionary conditions.

The economy of Bahrain is still greatly dependent on the oil sector despite the tangible success achieved towards diversification. Preleminary estimates indicate a slow-down in overall economic performance in 1985 primarly due to the recessionary conditions prevailing in most other GCC countries. In 1985, mining declined by 15 percent while the banking industry, which accounts for 12 percent of the country's GDP and employs 9 percent of the labour force, also suffered. The Bahraini government is implementing a strategy which gives high priority to further industralization, increased tourism and improved environment for banking and insurance activities.

The economy of Kuwait, which had experienced marginal growth of 0.1 percent in 1984, is estimated to have registered a 2 percent negative growth rate in 1985. As a consequence of falling oil revenues, Kuwait was forced to reduce government expenditures to cut the budget deficit. The mining sector is estimated to have declined by 13 percent in 1985. The performance of the non oil-sectors varied. Agricultural output grew by 7.1 percent in 1984 and an estimated 14.6 percent in 1985. The manufacturing sector, however, after achieving an 11.9 percent growth rate in 1984, performed poorly in 1985. Kuwait currently derives substantial income from its investments abroad which is assisting in alleviating some of the financial problems associated with the economic slowdown.

Oman is the only country in the GCC group which was able to achieve adequate economic growth rate in 1985, despite the overall slowdown in the region. Its economy grew by more than 5 percent in 1985. The mining sector, which grew by 7.6 percent in 1984, is estimated to have grown by 17 percent in 1985. The manufacturing sector has also performed well during the past two years. In addition, the construction sector which has witnessed a decline in most GCC countries continued to expand in 1985 in Oman, achieving a growth rate of 25.8 percent.

Qatar's economy was hit hard by the sharp decline in oil revenues in 1985. Although the non-oil sectors have generally experienced high growth rates, this was not sufficient to offset the sharp decline in the mining sector. In consequence, Qatar's GDP declined by about 8 percent in 1985.

Saudi Arabia's GDP, which had declined by 0.9 percent in 1984 in real terms is estimated to have decreased by about 10 percent in nominal terms in 1985. These declines were primarily precipated by the country's falling oil revenues. Nevertheless, Saudi Arabia has continued its policy of diversification. The agricultural sector continued to perform well and grew by 12 percent in1984 and 1985. Another sector which continued registering high growth rates is the manufacturing sector which grew by 11.7 percent in 1984 and by 9.8 percent in 1985.

The mining sector of the United Arab Emirates did not experience a similar decline as that witnessed by other major oil-exporting countries of the GCC in 1985. Nevertheless, estimates indicate a 2.5 percent negative growth rate of GDP in 1985.

The group of countries with diversified economies in the ESCWA region has a lower level of income, in comparison with that of the GCC group, but has a more balanced economic structure. Agriculture's share in GDP accounted for about 17 percent in both 1984, and 1985, while manufacturing represented about 16 percent. The economies of this group are linked with those of the GCC countries through different channels. Remittances of nationals working in the major oil-exporting countries represent a major element in the balance of payments in some countries of this group. The flow of financial resources to these countries in the form of soft loans and grants represent a major source of foreign capital, which already has been affected by the considerable drop in oil revenues in the GCC countries.

Despite various difficulties, this group of countries (excluding Lebanon and Iraq for which data were not available) has managed to achieve an economic growth rate of an estimated 5.1 percent in 1985.

The economy of Egypt faced acute difficulties during 1984/85. Such difficulties include the continuation of substantial budget deficits, growing external debt and widening trade deficits. The recent developments in the international oil market added a new dimension to chronicle problems by reducing Egypt's oil revenues and the two other major sources of foreign earnings, namely worker's remittances and Suez Canel income. The export of crude oil represents about 60 percent of the total exports of Egypt. The drop in oil revenues has therefore forced the government to introduce new austerity measures. Nevertheless, Egypt's GDP which grew by 6 percent in 1984 is estimated to have increased by 7.9 percent in 1985.

As a result of the continuing Iraq-Iran war, Iraq has had to channel a large portion of its resources to defence. The average 500,000 barrels per day increase in crude oil export through the Saudi terminal of Yanbu which became operational in September has helped the economy in 1985. Also the 9.5 percent growth rate of the agricultural output contributed to the improvement of the general economic conditions in the country.

Jordan, though closely dependent on the economies of the GCC countries through remittances its nationals and grants and loans, was able to contain to a considerable extent the negative impact of the recession in the major oil-exporting countries of the GCC group via the progress achieved in its domestic mining and manufacturing sectors; efforts were also made to significantly increase the country's agricultural output. Jordan's GDP is estimated to have grown by 3.8 percent in 1985.

The Syrian Arab Republic's economy was also directly affected by the falling oil prices, although it is not among the major oil-exporting countries in the ESCWA region. Oil exports account for a significant portion of the country's total exports. Agricultural output is estimated to have increased by 3.8 percent in 1985. The industrial sector (which includes mining) after declining by 5.3 percent in 1984 is estimated to have declined further by 3.4 percent in 1985. The Syrian Arab Republic's GDP is estimated to have declined by 0.5 percent in 1985.

The least developed countries of the region, namely Democratic Yemen and Yemen are most vulnerable to the unfavourable economic conditions in the region's major oil-exporting countries. Due to the low level of economic devlopment and limited resources, both countries are highly dependent an external resources. Remittances from Yemeni nationals working mainly in the major oil-exporting countries of the GCC countries represent a major source of foreign exchange earnings. Declining economic activity in the GCC countries led to the return of Yemeni workers. However, due to the high priority given by the government of Yemen to agriculture and industry, these sectors were able to grow by an estimated 10 percent and 16 percent, respectively in 1985. GDP in the region's two least developed countries is estimated to have increased by 5.0 percent in 1985 which, while below planned targets, is considered reasonable in view of the prevailing recessionary conditions in the region.

The persistent decline in exports, the rise in imports through 1982 and their less than proportionate decline thereafter, produced a sharp fall in the export/import ratio for the region as a whole, and for most individual countries, between 1980 and 1984. The decline has been most pronounced in Iraq, Kuwait and Saudi Arabia. Preliminary figures indicate that this trend continued in 1985. Import cutbacks have generally prevented a greater deterioration in the export/import ratio of Western Asia.

The region's exports are largely destined to the world market, while the outside world supplies most of its imports. Only 6-7 percent of the ESCWA region's trade has been carried out in recent years among its members. The share of Western Asia's exports going other developing countries and Japan has been rising during the first half of the 1980s, while the share of exports to Western Europe and the United States has been falling.

The enlargement of the EEC to include Portugal and Spain could have important implications for the trade of Egypt, Jordan, Lebanon and the Syrian Arab Republic with which the Community has concluded preferential trade and economic agreements. Products from the new members, being the lesser developed EEC members, could be expected to compete directly with actual and potential exports from the ESCWA region notably textiles, clothing, fruits and vegetables.

Import sources, on the other hand, have not changed significantly except for the rise in the share of developing countries in South-East Asia. The European Economic Community members maintained their lead supplying between 34-36 percent of total imports, followed by Japan and the United States with each supplying around 14 percent. Intra-regional trade, it should be noted, have remained a small fraction of total trade, ranging between 5-7 percent for exports and 7-11 percent for imports. The importance of the regional market is generally much greater for the non-oil economies relative to the oil economies on both the export and import side.

The relative small importance of the region in the export trade of the GCC economies stems from the dominance of crude oil and its derivatives (refined products, petrochemicals and fertilizers) in exports, the markets of which lie outside the region. For this group, intra-regional exports consist largely of re-exports; the provision of crude oil to refineries in Bahrain, Democratic Yemen, Jordan and Lebanon; and products of newly established industries such as iron and steel, and aluminium. Among the GCC economies, exports to other countries in the region have been of special importance for Bahrain and to a lesser extent Kuwait.

For the more diversified economies, the region provides outlet for their exports of manufactured goods, fruits and vegetables. These flows have been particularly important for Jordan and Lebanon where the regional market absorbed some 44 percent and 61 percent of their respective exports in 1984.

Regional supplies have accounted for a significant but declining portion of the imports of Bahrain and Kuwait. In the case of the non-oil economies, a striking decline has occurred in the portion of imports obtained from within the region, from 19 percent in 1980 to about 6 percent in 1983-1984. Intra-regional imports are particularly important in the case of Lebanon, Jordan and, to a lesser extent, the two Yemens.

The deterioration in the overall balance of payments position of the ESCWA region became more pronounced in 1984, with the current account deficit of the ten countries for which comparable data were available reaching $16.4 billion, compared to $8.7 billion the year before. Preleminary estimates indicate that Western Asia's overall balance of payments position deteriorated further in 1985.

In response to declining export earnings and domestic economic activity, and in an effort to protect local industry and/or raise revenues, protectionist tendencies became discernible in the course of 1985 in some countries that hitherto followed very liberal import policies. At the GCC level, a 20 percent duty on imports of aluminium, cement, iron and steel has been advocated. Saudi Arabia raised, as of 22 March 1985, the minimum tariff on dutiable imports from 4 to 7 percent. Kuwait and Oman imposed or extended import duties ranging from 15 to 25 percent on a number of industrial products. Of significance is the announcement by Kuwait in August 1985 of new rules to protect local industry. These replace the previous ad hoc practices, define the criteria for extending tariff protection and provide for speeding up procedures.

The overall international reserves position of the ESCWA region had recorded a steep deterioration in 1984, with reserves holdings falling by close to $5 billion. In 1985, however, preleminary estimates indicate considerable additions to international reserve holdings by Saudi Arabia and Kuwait. This improvement was realized against a sharp drop in oil output and continued pressure on prices, pointing to strong efforts on the part of authorities to replenish reserves by curbing foreign exchange outlays notably on imports of goods and services, and also in connection with expatriate labor and official transfers.

Preleminary actuals for fiscal 1985 indicate that both revenues and expenditures fell well below their budget estimates in the GCC countries. Budgetary revenues declined in response to the sharp fall in oil revenues, particularly in Kuwait, Qatar and Saudi Arabia. Government expenditures which were slashed in 1984 were curtailed further in 1985. Nevertheless, budgetary deficits in 1985 were a common feature to all oil-economies of the region. In Saudi Arabia preliminary conservative estimates put to budget deficit at SR 46 billion. In Qatar, it is estimated to have amounted to QR 3682 million. In Kuwait the deficit is estimated at KD 764.8 million, but if investment income - which is not included in the budget - is considered the deficit will most probably disappear. While in the United Arab Emirates, the budgetary deficit is estimated at about Dh3656 million. Taking grants and loans into account, the net budgetary deficit amounted in 1985 to BD 47 million in Bahrain and OR 199 million in Oman. Deficits in 1985, as well as in the past few years, were mainly financed.by liquidating foreign assets and drawing on reserves.

The deteriorating economic conditions in most of the GCC countries in 1985 had a negative impact on the more diversified conomies of the region. The Syrian Arab Republic had the most restrained budget in 1985 among the more diversified economies of the region. Egypt and Jordan continued to adopt more expansionary fiscal policies and thus widening their budgetary deficit.

The restrictive spending policies pursued by most of the GCC economies and the concomitant slowdown in economic activity have adversely affected the <u>financial and banking</u> sectors where liquidity levels of business and private households suffered. Contrary to developments in the GCC countries, money supply (M1) in most of the more diversified economies continued to increase, albeit at a diminishing rate over the period 1982-1984. Available data for 1985 indicate that M1 declined in Jordan by 2.6 percent, while rising in Egypt by 13.5 percent.

The stringency in government expenditures, subsidies and lower growth rates in money supply have resulted in lower <u>inflation</u> rates for the second consecutive year in the GCC countries in 1984. Preliminary figures indicate that prices have generally stablized in 1985. In the more diversified economies, the lowest rates of inflation in 1984 was registered in Jordan (3.9 percent), while in the Syrian Arab Republic, Lebanon, and Iraq the increase in the consumer price index was in the range of 9 to 11 percent. Egypt experienced the highest inflation rate with a 17 percent rise in the index in 1984 and around 16.5 through October 1985. Partial and incomplete information for 1985 indicates that Lebanon experienced a high inflationary spiral, with the consumer price index rising by 70 percent. In Jordan and the Syrian Arab Republic the rate of increase in consumer prices picked up momentum, rising by 7 percent by October 1985 in the former and 13 percent by April 1985 in the latter.

The shortage of liquidity and economic slowdown have left their marks on the <u>banking</u> sector in many countries of the region, particularly on Kuwait and Lebanon. The drop in securities and real estate values in Kuwait slashed the value of collateral held by banks against loans, which dampened further the banking sector's position. Moreover, the volume of Euro Syndicated lending by Arab banks and financial institutions continued to decline in 1985 due to changes in business and financial environment in the Euro markets. It registered $4427 million, thus reflecting a decline of 23 percent compared with 1984 and less than half the 1981-1982 peak. In 1985, Saudi based banks surpassed Kuwaiti banks and institutions in their syndicated lending operations. They accounted for 21 percent of the Arab total compared to 16.5 percent for Kuwait. Bahrain continued to lead due almost entirely to the active participation of Gulf International Bank and the Arab Banking Corporation. Other Arab banks in Bahrain, however, have further cut back their activity in 1985.

Western Asia's economic <u>outlook</u> for 1986 and 1987 is not bright. Since oil revenues represent a major component of national income and foreign exchange earnings in the ESCWA region economic activity there continue to be greatly affected by developments in the international oil market. As noted earlier, oil prices in early 1986 were only slightly higher than a third of their November 1985 levels. If no improvement in the oil market takes place soon, the immediate future will be fraught with economic uncertainties and challanges for most of the ESCWA countries, particularly those with large external debt-servicing obligations. Government expenditures could be expected to be curtailed and taxes increased in order to contain budget deficits. Efforts would have to be made to increase exports of non-oil items and to reduce imports of consumer and non-essential goods. Moreover, a general policy of reducing the number of expatriate workers in the ESCWA countries would be implemented in order to limit the income transfer of such workers and reduce the growing balance of payments pressure .