



UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL

Distr.
LIMITED
E/ESCWA/DPD/87/13
10 September 1987
ORIGINAL: ENGLISH

ECONOMIC AND SOCIAL COMMISSION FOR WESTERN ASIA

Development Planning Division

**REVIEW OF ECONOMIC DEVELOPMENTS IN THE ESCWA REGION
DURING THE FIRST HALF OF 1987**

THE ECONOMIC AND SOCIAL COMMISSION
FOR WESTERN ASIA
SEPTEMBER 1987
LIBRARY + DOCUMENT SECTION

SEPTEMBER 1987

87-0931

OUTLINE

Page

I.	Introduction.....	1
II.	Developments in the international oil market and their implications for the ESCWA region.....	2
III.	Major economic policy changes in selected ESCWA countries....	9
IV.	Economic growth targets of several ESCWA countries' five-year development plans.....	13
V.	Economic co-operation among ESCWA countries.....	16
VI.	Outlook.....	16

REVIEW OF ECONOMIC DEVELOPMENTS IN THE ESCWA REGION
DURING THE FIRST HALF OF 1987

I. Introduction

General economic conditions in the ESCWA region significantly improved in 1987. The gross domestic product (GDP) of the region, which declined by 4 per cent in 1985 and suffered an estimated further decline rate of 6 per cent in 1986, is projected to rebound and record positive, though moderate, growth rates in 1987.

The overall economic performance of the region, however, continues to be negatively affected by, the Iraq-Iran war, the Lebanese civil strife and the Palestinian problem. Each of these political conflicts continues to drain human and capital resources away from economic and social development in the region. Defence budgets are relatively large and thus strain the limited resources of many ESCWA countries as well as contribute to the rapid deterioration of the external debt position of some countries in Western Asia. Furthermore, political conflicts in the region tend to limit long-term private investment, particularly by foreign investors.

The major reason that, in spite of continuing political conflicts in the region, most ESCWA countries in 1987 are generally rebounding from the recessionary conditions which had prevailed since 1983 is the relative strength of the international oil market this year.

Developments in the international oil market have a dominant impact on economic conditions in the ESCWA region. Oil exports account for 60 per cent or more of total exports in nine countries (the six Gulf Co-operation Council (GCC) members, Egypt, Iraq and the Syrian Arab Republic) out of the 13 ESCWA countries ¹/_. For most GCC countries, oil exports account for over 90 per cent of total exports. Moreover, in spite of sincere diversification efforts and certain accomplishments in some countries, oil still accounts for half the GCC countries' GDP and around two thirds of government revenues. Hence higher oil prices and revenues during the first half of 1987 may be expected to favorably affect balance of payments, national budgets and development plans as well as economic activities in almost all countries in Western Asia. Moreover, as table 1 illustrates, the 10 ESCWA countries that have oil together possess over half the world's total oil reserves.

¹/It should be noted that Yemen will become the tenth oil-exporting country in the region during the fourth quarter of 1987. In addition, the first two of the three remaining ESCWA countries - Democratic Yemen, Jordan and Lebanon, - have recently discovered oil, but in relatively small quantities, within their boundaries.

Table 1
ESCWA region oil reserves
(in thousand barrels)

Country	January 1986	January 1987
Bahrain	155,000	140,000
Egypt	3,850,000	3,600,000
Iraq	44,110,000	47,100,000
Kuwait	92,464,000	91,916,000
Oman	4,000,000	4,032,000
Qatar	3,300,000	3,154,000
Saudi Arabia	171,490,000	166,573,900
Syrian Arab Republic	1,440,000	1,400,000
United Arab Emirates	32,990,000	33,050,000
Yemen Arab Republic	-	500,000
ESCWA region total	353,799,000	351,465,900
World total	700,140,560	697,449,600
ESCWA as percentage of world	50.5	50.4

Source: ESCWA, compiled from Oil and Gas Journal, 30 December 1985, pp. 66-67 and 22-29 December 1986, pp.36-37.

Thus developments in the international oil market may be expected to continue to have a considerable impact on the economic performance of Western Asia for many years to come.

II. Developments in the international oil market and their implications for the ESCWA region

Last year, 1986, the international oil market witnessed a fall in the average weighted price of crude oil from \$26.3 per barrel in 1985 to \$13.8 per barrel, representing a 47.5 per cent decline. This sharp drop in oil prices came about primarily as a result of the OPEC December 1985 declared policy to secure and defend for its members "a fair share" in the international oil market. OPEC members' oil production increased substantially in 1986 averaging 18.3 m/b/d, which was 16.4 per cent more than their production in 1985. The main losers in this "war" were OPEC members themselves; their oil revenues were reduced by \$50.7 billion, tumbling from \$127.3 billion in 1985 to \$76.6 billion in 1986.

Suffering from their ill-conceived production policy, OPEC members, excluding Iraq, agreed in December 1986 to restrain their production during the first half of 1987 to 15.8 m/b/d - including a notional quota of almost 1.5 m/b/d for Iraq as shown in table 2 below. For the third quarter of 1987, OPEC members fixed a 16.6 m/b/d total quota, subject to revision in the light of market demand conditions and rising to 18.3 m/b/d in the fourth quarter, thereby averaging 16.6m/b/d for 1987 as a whole.

Table 2
OPEC countries' quotas for 1987
(in thousand barrels per day)

	1st half <u>a/</u>	2nd half <u>b/</u>	4th quarter <u>a/</u>
Algeria	635	667	735
Ecuador	210	221	243
Gabon	152	159	176
Indonesia	1,133	1,190	1,312
Iran	2,255	2,369	2,612
Iraq	1,466	1,540	1,697
Kuwait <u>c/</u>	948	996	1,098
Libya	948	996	1,098
Nigeria	1,238	1,301	1,434
Qatar	285	299	330
Saudi Arabia <u>c/</u>	4,133	4,343	4,787
UAE	902	948	1,045
Venezuela	<u>1,495</u>	<u>1,571</u>	<u>1,733</u>
Total	15,800	16,600	18,300

Source: ESCWA based on international sources.

a/Under December 1986 agreement

b/Under June, 27 1987 agreement and corresponds to 3rd quarter quota under the December 1986 agreement

c/Including Partitioned Zone

Furthermore, OPEC members agreed to introduce at the beginning of February 1987 a "marker" price of \$18 per barrel, the weighted average of seven crudes including one Mexican.

OPEC members met again in Vienna on 27 June 1987 and agreed on the one hand to maintain OPEC's "marker" price at \$18 per barrel and on the other hand to extend the overall production quota set at 16.6 m/b/d solely for the third quarter to the end of 1987.

Actual oil production by OPEC members, according to data available, averaged 16.6 m/b/d, 15.7 m/b/d, 15.3 m/b/d and 16.3 m/b/d during January, February, March and April 1987, respectively.^{1/}

Encouraged by rising demand, primarily due to the strength of American demand for refined oil production and a sizeable reduction in the destocking activities by the major international oil companies, OPEC members produced an estimated 16.9 m/b/d on average for May and June, 1987. Thus OPEC members' oil production during the first half of 1987 averaged an estimated 16.3 m/b/d. While this production level slightly exceeded the OPEC self-imposed quota of 15.8 m/b/d, it was around 8.9 per cent below the 17.9 m/b/d produced by OPEC members in the first half of 1986.

^{1/} Petroleum Economist, July 1987, p.288.

OPEC production curbs in the first half of 1987 were tight enough to draw down oil stocks on land in the Organization of Economic Co-operation and Development (OECD) countries as shown in table 3.

Table 3
Oil stocks on land in OECD countries
(in millions of tons)

	<u>1986</u>		<u>1987</u>		
	1 July	1 October	1 Jan	1 April	1 July*
	Vol.	Vol.	Vol.	Vol.	Vol.
North America	208.7	218.1	214.0	207.4	204.7
Pacific zone	71.4	76.1	73.9	73.5	73.3
<u>Europe</u>	146.0	157.7	153.7	146.8	142.9
Total OECD	426.1	451.9	441.6	427.7	420.9

Source: Arab Oil and Gas, 16 June 1987, p. 23.

*Provisional estimates.

After total OECD countries' oil stocks reached 451.9 million tons in October 1986, they fell to 441.6 million tons by 1 January 1987. After the first half of 1987 came to an end, OECD countries' oil stocks were 20.7 million tons lower, at 420.9 million tons.

According to the International Energy Agency, the OECD countries' oil stocks at the end of the first half of 1987 represented 72 days of forward consumption. This relatively low number of days removes the threat of a sudden release of stocks which could rapidly undermine the international oil market. There has been increased confidence in OPEC ability to keep prices stable and hence an oil market collapse, as in 1986, is regarded as highly unlikely.

It is widely believed that, partly due to the generally favorable market conditions, several OPEC members are expected to produce above the quota agreed upon in late June 1987. Actual oil production by OPEC members is anticipated to average 17.7 m/b/d in the third quarter and around 18 m/b/d in the fourth quarter. This would give a 17.1 m/b/d average for 1987 as a whole.

1/ See Middle East Economic Digest 20 June 1987, p.7.

2/ Ibid, 4 July 1987, p.1.

Though clearly above the declared quota, this output would be 1.2 m/b/d - i.e., 6.6 per cent - below last year's production level.

According to projections by the United States' Congressional Research Service, OPEC countries have the potential of producing 18 m/b/d for at least another 90 years.^{1/} Kuwait has enough oil reserves to maintain a 1.2 m/b/d output level for at least 180 years, and Saudi Arabia and Iraq each have the potential to sustain current production levels for more than another 100 years.^{2/} On the other hand, many non-OPEC oil producers are projected to witness declining production before 1995. It is projected that in less than 15 years oil production may drop by more than half in the United Kingdom's North Sea, fall by 25 to 50 per cent in the United States, Egypt, Brazil, Australia, Colombia, Argentina and Peru, and decline by 10 to 25 per cent in the Soviet Union.^{3/}

Five ESCWA countries are members of OPEC, namely Iraq, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates. Except for Iraq, these countries, like other OPEC members, produced less oil during the first half of 1987 than during the corresponding period of the previous year, as shown in table 4.

Table 4

Oil production of major ESCWA oil-exporting countries, 1986-1987
(million b/d)

	1st half 1986	1st half 1987 ^{a/}	% change 1st half 1987/86	1986	1987 ^{b/}	%change 1987/86
Iraq	1.65	1.83	10.9	1.69	2.16	27.8
Kuwait ^{c/}	1.42	1.17	-17.6	1.42	1.17	-17.6
Qatar	0.33	0.25	-24.2	0.33	0.27	-18.2
Saudi Arabia ^{c/}	4.55	3.85	-15.4	5.04	4.10	-18.7
UAE	1.37	1.17	-14.6	1.37	1.06	-22.6
Total	9.32	8.27	-11.3	9.85	8.76	-11.1

Source: ESCWA based on international source

a) ESCWA estimates based on international sources

b) ESCWA projections

c) Includes share of Partitioned Zone.

Iraq did not accept the notional quota assigned to it, and maintains that it will not accept a quota below the 2.25 m/b/d allotted to Iran, with which it has been at war since 1980.

^{1/} See Petroleum Intelligence Weekly, 6 July 1987, p.5.

^{2/} Ibid.

^{3/} Ibid.

As shown in table 4, Iraq's oil production averaged 1.83 m/b/d during the first six months of 1987, representing a 10.9 per cent increase over the first half of 1986. Iraq is making every effort to increase its oil production capacity and to restore its pre-war production level of around 3 m/b/d. In June its crude oil production surpassed the 2 m/b/d mark and is projected to reach 2.5 m/b/d by September 1987 when the second Turkish pipeline is put into operation.

Qatar and Saudi Arabia produced below their production quotas during the first half of 1987. Qatar encountered obstacles in marketing its oil exports at around the \$18 per barrel price marker. Saudi Arabia, however, produced less than its quota by over a million barrels per day during the first quarter of 1987 in order to help to achieve the \$18 per barrel price level. Only in April when market conditions allowed did Saudi Arabia produce at levels high enough to correspond to its quota limit.

Total oil production by major oil-exporting countries of ESCWA amounted to an average of 8.27 m/b/d during the first half of 1987, representing an 11.3 per cent decline from the levels attained during the corresponding period of 1986. Furthermore, oil production by these countries is projected to average 8.76 m/b/d for 1987 as a whole, which would signify an 11.1 per cent decline from the 1986 level.

Oil production by other ESCWA oil producers (Bahrain, Egypt, Oman, the Syrian Arab Republic and Yemen) in 1987 is expected to be at, or above, levels achieved during the previous year.

Despite the decline in oil production by major ESCWA oil-exporting countries in 1987 their gross oil revenues are estimated to be more than those accrued in 1986, as shown in table 5.

Table 5
Gross oil revenues of major ESCWA oil-exporting countries*
(1986-1987)
(in billion US dollars)

	1st half 1986	1st half 1987a/	% change 1st half 1987/86	1986a/	1987b/	%change 1987/86
Iraq	4.2	6.0	42.9	8.5	14.2	67.1
Kuwait	3.6	3.8	5.6	7.2	7.7	6.9
Qatar	0.8	0.8	0.0	1.7	1.8	5.9
Saudi Arabia	11.5	12.7	10.4	25.4	26.9	5.9
UAE	3.3	3.8	15.2	6.9	7.0	1.4
Total	23.4	27.1	15.8	49.7	57.6	15.9

Source: ESCWA based on international sources.

*These are gross oil revenues derived by multiplying oil production times average price. The net oil revenues collected by the various countries depend on their domestic consumption as well as the share of the international oil companies in the oil production.

a)ESCWA estimates based on a weighted average price of \$13.8 per barrel of oil

b)ESCWA projections based on a weighted average price of \$18.0 per barrel of oil

Their total oil revenues during the first half of 1987 are estimated to amount to \$27.1 billion, representing a 15.8 per cent increase over the first six months of 1986. For 1987 as a whole, their total oil revenues are projected to reach \$57.6 billion, which would be 15.9 per cent greater than their 1986 oil revenues.

The most prominent increase in oil revenues during the first half of 1987 was achieved by Iraq, the revenues of which are estimated to be 42.9 per cent higher than their levels during the corresponding period of 1986. Higher oil production and higher oil prices contributed to this big jump in oil revenues. For the other major oil-exporting countries of ESCWA, their oil revenues during the first half of 1987 are estimated to be higher than their levels attained during the first six months of 1986, except for Qatar. Higher oil prices during the first half of 1987 were not sufficient to compensate for the 24.2 per cent decline in Qatar's production. However, for 1987 as a whole, all of the ESCWA major oil-exporting countries are projected to attain higher oil revenues than in 1986, as previously indicated. Thus, the ESCWA major oil-exporting countries as a group have produced less oil, the precious non-renewable source of energy, during the first half of 1987 but obtained more revenues in comparison with the same period of 1986.

Furthermore, various indicators lead to the conclusion that the other ESCWA oil-exporting countries have received larger oil revenues during the first half of 1987 than in the first six months of last year. This is particularly true for Egypt, which by producing an average of 886,000 barrels per day during the first half of 1987, exceeded its average daily production of the same period of 1986 by 14.4 per cent. Thus Egypt recorded higher oil production as well as higher oil prices, and hence significantly higher oil revenues.

The higher oil revenues recorded in the GCC countries and Iraq during the first half of 1987 have additional beneficial effects for them and for the other members of ESCWA. Higher oil revenues in the GCC countries and Iraq give the relevant government authorities more resources to accelerate economic activities in their respective countries. Faster growing economies in the GCC and Iraq have the potential to contribute to higher levels of remittances transferred by nationals from the other ESCWA countries, particularly by Egyptians, Jordanians, Yemenis, Lebanese and Palestinians.

Furthermore, higher levels of economic growth in the GCC countries usually lead to increased financial aid to other ESCWA countries, as well as to other developing countries and regional and international development institutions.

Nevertheless, the rising oil revenues of many ESCWA countries during the first half of 1987 have been negatively affected by the decline of the United States dollar, the currency in which most oil transactions are denominated. The decline in the United States dollar against other major currencies which began during the last week of February 1985 continued during the first half of 1987, as shown in table 6. The United States dollar fell during the first half of 1987 by 8.0 per cent, 7.0 per cent, 10.3 per cent and 4.6 per cent vis-a-vis the Japanese yen, the Federal Republic of Germany's deutsche mark, the British pound sterling and the French franc.

Comparing the exchange rate of the United States dollar vis-a-vis the above-mentioned currencies at the end of June 1987 with the end of June 1986 we witness greater declines, as shown in table 6.

Table 6

Decline of the US dollar in terms of other major currencies
(end of period)

US dollar versus:	June 1986	Dec. 1986	June 1987	% change	
				June 87/ Dec. 86	June 87/ June 86
Japanese yen	167	163	150	-8.0	-10.2
German deutsche mark	2.2	2.0	1.86	-7.0	-15.5
British pound sterling <u>a/</u>	1.50	1.45	1.60	-10.3	-6.7
French franc	7.2	6.5	6.2	-4.6	-13.9

Source: ESCWA, based on international sources.

a/ Shown in dollars per pound

The decline of the US dollar in terms of other major currencies makes the imports from these countries by the ESCWA oil-exporting countries rise in price. This precipitates inflationary pressures - in varying degrees dependent on the absolute and relative shares of the imports from Japan, the Federal Republic of Germany, France and the United Kingdom in total imports - on ESCWA's oil-exporting countries. This could also lead to an alteration in the composition of the sources of imports in the ESCWA oil-exporting countries.

Moreover, another consequence of the further decline in the United States dollar during the first half of 1987 is the additional decline in the value of the international reserves and foreign assets denominated in United States dollars of Kuwait, Saudi Arabia and the United Arab Emirates, in terms of other major currencies. This in turn may lead to a change in the composition of international reserves and foreign assets held by these ESCWA countries.

Table 7

Fluctuations of local currency against the US dollar
in selected ESCWA countries
(Mid-1986 - Mid-1987)

<u>Equivalent of 1 US dollar in local currency</u>				
Country	Currency	Mid-1986	End-1986	Mid.-1987
Egypt*	Pound (LE)	1.37	1.37	2.19
Jordan	Dinar (JD)	0.35	0.343	0.341
Kuwait	Dinar (KD)	0.296	0.295	0.283
Lebanon	Pound (LL)	45.6	69.7	138.0
Qatar	Riyal (QR)	3.64	3.64	3.64
UAE	Dirham (Dh)	3.67	3.67	3.67
Yemen	Rial (YRl)	8.51	10.5	9.8

Source: ESCWA, based on international sources.

*Premium rate.

As shown in table 7, several ESCWA countries currencies depreciated against the declining US dollar during the first half of 1987.

The sharpest decline is that of the collapsing Lebanese pound, which fell from \$1 = LL. 69.7 at the end of 1986 to \$1 = LL. 138.0 at the end of the first six months of 1987. By the end of August, 1987 the Lebanese pound tumbled to around \$1 = LL. 300. Inflation rates in Lebanon are skyrocketing and the Lebanese economy is in shambles. The currencies of Qatar and the United Arab Emirates show no change in value since they are tied to the US dollar.

III Major economic policy changes in selected ESCWA countries

Major economic policy changes took place in several ESCWA countries during the first half of 1987. These changes are expected to have various implications on economic development in the countries.

1. Egypt

After long negotiations with the International Monetary Fund (IMF) the Egyptian government agreed in mid-May 1987 to alter some previous policies and implement several IMF recommendations which include the following: (1) phase out the multi-tier currency rates and unify them at the end of an 18-month period;(2) gradually raise its artificially low interest rates;(3) increase its domestic energy prices;(4) offer bigger incentives for farmers producing staple commodities;(5) reduce budget deficits;(6) reduce imports and stimulate exports;and(7) encourage the private sector to play a greater role in the economic development of the country.

Egypt was eager to improve its economic conditions but was hampered by the heavy burden of servicing its external debt which was rising rapidly and had already passed the \$40 billion mark ^{1/}, at a time when foreign exchange earnings from its oil exports were dropping and remittances from its expatriate workers falling. The Egyptian economy was also suffering from structural problems as well as an annual inflation rate ranging between 16 and 20 per cent during the previous five years. Egypt was in dire need of an IMF 1 billion United States dollars standing credit - over a three-year period - as well as additional financial aid from multilateral lenders such as the World Bank. At least equally important, Egypt was in need of a favourable treatment by the members of the Club of Paris in rescheduling the servicing of some of its external debts.

Thus by coming to an agreement with the IMF, Egypt received \$327 million as well as a considerate response by the members of the Club of Paris since it had declared its intention to take bold actions to rectify various economic factors which were hindering economic growth and development of the country.

During the Club of Paris meeting of 21-22 May 1987, the 18 international creditor governments agreed to the rescheduling of Egypt's debt service payments totalling around \$12 billion.

^{1/} The bulk of Egypt's external debt is medium- and long-term loans from Western governments. Approximately \$10 billion of the external debt consists of military loans generally carrying high interest rates. Servicing the military debts to the United States and France accounted for one third of the annual interest burden. (See Middle East Economic Digest, 11 July 1987. p.55).

This includes areas up to the end of 1986 and debt service payments due between January 1987 and June 1988. The agreement made covers all official and government guaranteed debts- civilian and military- contracted prior to 31 October 1986. In addition, the rescheduling is for 10 years, including a grace period on debt payments of five years. Egypt thus received some "breathing space" as it implements the recommended IMF policies required for alleviating some of the obstacles to faster economic growth and development.

In implementing the new policies, Egypt set a new foreign exchange rate of \$1 = LE 2.17, which was very close to the free market rate 1/. The new rate will be utilized for remittances from Egyptians working abroad, which were estimated to amount to around \$2.5 billion in 1986, as well as for receipts from tourism, commercial banks' foreign exchange transactions and the financing of about 40 per cent of the country's imports (only non-essential imports).

This measure is aimed at attracting foreign exchange into the banking sector. Preliminary indications show that this new, and more realistic, rate has already done so. Foreign exchange earnings from tourism as well as transferred remittances from Egyptians working abroad are apparently being channelled in greater proportions through the official banking system. This may be expected to continue as long as this new rate (which may be changed periodically by a selected committee dominated by prominent bankers and without intervention from the government) does not differ substantially from the "free" market rate.

This new rate may be expected to make Egyptian exports more competitive in world markets. Furthermore, as the cost of imports rises for Egyptian importers, import volumes are expected to decline 2/. Consequently, Egypt's trade deficit may be expected to decline in the near future. The degree of decline in trade deficit will greatly depend on the price elasticity of imports and exports.

With respect to interest rates, the Egyptian Government rejected the IMF recommendation to raise interest rates above the current inflation rate of around 20 per cent, on the grounds that this would be too big a jump and would sharply contract economic activity and discourage new investments. Nevertheless, it has already implemented a policy of restructuring of the country's interest rates and limiting of credits. Banks may extend credits worth only 2.5 per cent more than their total in 1986 - a regulation which has caused some difficulties for commercial banks, which in some cases have been obliged to call in loans in order to meet the limit.

Substantial increases in the prices of fuels, ranging from 67 per cent to over 270 per cent came into force in the Egyptian domestic market on 1 May 1987. Electricity rates are expected to rise by 30 per cent as a result. However, despite these hefty increases, the new retail prices of Egyptian fuels are still equivalent to only 25 per cent of their international market prices. Nevertheless, the increases introduced comply with the IMF demands which called for rises of 60 percent.

1/ Currently, these are also three other official dollar exchange rates in use: an official accounting rate of \$1 = LE 0.70, a floating banking rate of around \$1 = LE 1.35 and a special rate of \$1 = LE 0.40 applicable solely to trade with the Soviet Union.

2/ Since the new foreign exchange rate does not apply to basic food items and goods, poorer Egyptians may be spared some of the inflationary effects of a devalued currency.

The increases in energy prices were certainly called for in order to discourage waste, particularly since domestic oil demand has been rising rapidly and cutting in half Egypt's produced crude oil which is available for exportation.

Egypt has already removed most price controls and crop quotas on many agricultural products. Preliminary estimates point to a faster growth in agricultural output. Since Egypt imports more than half of the food it consumes, every effort should be made to increase domestic agricultural production. Currently, the prices of agricultural products are depressed in the world market. If, and when, their prices rise they could precipitate havoc in to Egypt's balance of trade. Thus, the new policy may be regarded as a major step on the long road towards the goal of "food security".

Egypt's budget deficit in the fiscal year 1987/1988 - which began on 1 July 1987 - represents 13 per cent of GDP compared with 15 per cent of GDP in the fiscal year 1986/1987. This is to be achieved by reducing government expenditures and raising revenues. The ultimate objective is to reduce the budget deficit to no more than 5 per cent of GDP. The implementation of such measures require belt-tightening by Egyptians, particularly if defence outlays are not curtailed.

In spite of some of the limitations of the new policies being implemented, that these reforms will help to steer Egypt on the road to recovery cannot be doubted. Despite the breathing space provided by the members of the Club of Paris, Egyptians appear to be entering into several years of belt-tightening.

2. Iraq

In Iraq, far-reaching reforms were implemented in an attempt to cut red tape and increase industrial production and efficiency. An entire bureaucratic layer was abolished and a policy which assigned a greater role in the decision-making process to managers of public industrial enterprises, which are supervised by the Light Industries and Industry of Minerals Ministries, was declared in April 1987. It is hoped that by granting the managers of public industrial enterprises wider powers - as well as additional responsibilities - efforts would be intensified to improve efficiency and boost industrial production.

In March 1987, a decision was made to substitute the term "official" for the term "worker". This action was taken partly to overcome an acute industrial labour shortage in the country. By reclassifying "workers" as "officials" it is expected to facilitate the transfer of manpower from overstuffed government offices to State factories. Due to the Iraq-Iran war and the resulting diversion of a significant part of the country's labour force to the battlefield, every effort to enhance the mobility of those working in the factories and on the fields should be looked upon favourably.

3. Saudi Arabia

The banking sector in Saudi Arabia witnessed its worst performance in seven years in 1986. In addition to sharp falls in oil revenues and hence reductions in government expenditures and an overall recessionary condition, the commercial banks in Saudi Arabia also suffered from huge amounts of non-performing loans.

Thus, the Government of Saudi Arabia implemented new policy measures in the first half of 1987 which aim at bolstering the banking sector, and in turn the private sector as a whole. These measures include the following:^{1/}

- (1) Transferring jurisdiction of banking disputes away from the existing court system, which apparently was slow in resolving disputes and had particular problems when dealing with cases involving the payment of interest charges;
- (2) Transferring jurisdiction over other commercial disputes to a single court;
- (3) Abolishing the requirement of withholding taxes paid on interest payments remitted overseas.

These measures are expected to improve the performance of commercial banks in Saudi Arabia, particularly when accompanied by an expected increase in the country's oil revenues in 1987.

4. Kuwait

Since 1983 Kuwait has been suffering from recessionary conditions brought about mainly by the annually declining oil revenues. In 1986, Kuwait experienced sharp declines in oil revenues as well as a considerable contraction in its GDP. Hence, by December 1986, the Kuwaiti Government had decided to play a decisive role in putting the economy back on a positive growth track. A decision was made to pursue expansionary fiscal and monetary policies. Thus in December 1986 the Government announced that it had allocated KD 600 million (\$2.2 bn) to accelerate its land appropriation programme, as a means of injecting financial resources into the economy and supporting real estate prices.

Kuwait's 1987/1988 budget, which covers the period from 1 July 1987 to 30 June 1988, calls for a 3.5 per cent growth in government expenditures, including a 10.4 per cent raise for government employees ^{2/}. Since the inflation rate in Kuwait is averaging around 1 percent, the real purchasing power of government employees will significantly increase during the year starting 1 July 1987. This in turn, through the multiplier effect, contributes to greater domestic retail and wholesale trade.

For Kuwait, it seems that raising wages of government employees is called for. However, wage increases of government (and military) employees in Egypt and the Syrian Arab Republic are granted to compensate for the 20 per cent and 25 per cent inflation rates recorded in those two countries respectively in 1986. Nevertheless, they are expected to add to the inflationary pressures already building up there in 1987.

The Kuwaiti authorities have also made use of their monetary instruments to help to expand economic activities in the country. Since the beginning of 1987 the Central Bank intervention rate - the interest rate on after for

^{1/} Middle East Economic Digest, 4 July 1987, p. 95.

^{2/} It is estimated that government employees account for approximately two thirds of Kuwait's labour force.

Kuwait dinar funds with a maturity of one week to one year - has been reduced three times. The declining interest rates are expected to encourage new investments as well as stimulate real estate and share prices. This in turn would increase the value of assets used as collateral by bank debtors - converting some of them to a positive net asset position and thereby improving the overall economic environment.

5. Jordan

The Jordanian authorities have long been believers in the efficiency of the private enterprise mechanisms. Hence, Jordan has for many years encouraged the private sector to play a significant role in the economic development process. Furthermore, private sector for Arab and foreign sources was also encouraged.

In Jordan's new Five-Year Development Plan (1986-1990), a development strategy is set which is based on greater reliance on the private sector initiative and thus investment by the private investment is expected to be channelled into agricultural, industrial, housing and construction activities.

In 1986 a committee was established with the purpose of identifying public enterprises which would be more efficiently run if either their management and/or actual ownership were transferred to the private sector. A decision to privatize ALIA, the Royal Jordanian Airline was taken in 1986. During the second half of 1987, ALIA shares are expected to be distributed in the market and allowing up to 51 per cent private ownership.

There is no doubt that a private enterprise in attempting to maximize its profits will endeavour to curtail waste and increase revenues. However, there remains a need for government supervision of the private enterprises in order to protect the general public from possible excessive monopoly powers of profit-seeking private investors.

IV. Economic growth targets of several ESCWA countries' five-year development plans

New Five-Year Development Plans were launched in several ESCWA countries in 1986 or 1987. As shown in table 8 the GDP growth rate targets are lower for Democratic Yemen, Egypt and Jordan, in comparison with their respective previous Five-Year Plans. The lower oil revenues and declining economic activities in the region have had a generally sobering effect on economic development planners.

Table 8
GDP growth rates of selected five-year development plans
of several ESCWA countries

Country	Five-year Development Plan		
	Period	Planned GDP growth rate <u>a/</u>	Actual GDP growth rate <u>a/</u>
Democratic Yemen	1981-1985	9.8%	4.2%
	1987-1991	3.5% <u>c/</u>	
Egypt	1982/83-1986/87	8.6%	6.6%
	1987/88-1991/92	5.8%	
Jordan	1981-1985	11.1%	4.1%
	1986-1990	5.0%	
Saudi Arabia	1980-1985	3.3%	-5.8%
	1985/86-1990/91	4.0%	
Yemen	1982-1986	7%	4.3%
	1987-1991	11.4%	

Source: ESCWA, based on national sources

a/Average annual growth rate

b/Preliminary estimates

c/GNP

Democratic Yemen's 1981-1985 Five-Year Plan had envisaged an unrealistic 9.8 per cent average GDP annual growth rate. Actual average annual GDP growth achieved was 4.2 per cent. The country's new Five-Year Development Plan aims at a modest average annual GNP growth rate of 3.5 per cent. This new planned average annual growth certainly appears attainable, particularly if oil is pumped out of the recently discovered wells.

Egypt Five-Year Development Plan 1982/1983-1986/1986 had called for an average annual growth rate of 8.6 per cent. Primarily due to the positive effects of rising oil revenues and transferred remittances from Egyptians working abroad during the first years of the Plan, Egypt was able to record an average annual GDP growth rate of 6.6 per cent given the major changes in the international oil market and their direct and indirect effects on the Egyptian economy. The average annual GDP growth rate during 1987/88 - 1991/92 is targetted at 5.8 per cent. Given the contractionary monetary and fiscal policies enacted in 1987, the 5.8 per cent GDP growth rate may only be expected during the latter years of the plan period.

Jordan's Five-Year Development Plan 1981-1985 achieved an average annual GDP growth rate of 4.1 per cent, while the targeted rate was extremely ambitious at 11.1 per cent. The sharp declines in oil revenues in the GCC countries precipitated a reduction in remittances of Jordanians working there as well as less generous aid donations from GCC countries. The 1986-1990 Five-Year Development Plan aims at achieving an annual average GDP growth rate of 5.0 per cent. This is an attainable target, particularly if the new emphasis on privatization proves successful. Jordan, like many other ESCWA countries, would benefit remarkably from an upturn of economic activity in the GCC countries and Iraq.

The new Five-Year Development Plans of Yemen and Saudi Arabia call for higher GDP growth rates than their previous plans. Yemen's 1987-1991 Plan aims at an average GDP growth rate of 11.4 per cent, in spite of the fact that actual GDP average annual growth during the previous five years was only 4.3 per cent. The Yemeni Government seems to be over-optimistic about the size and effects of the oil revenues stemming from its oil production which is to begin during the fourth quarter of 1987. Due to a relatively poor infrastructure, an infant industrial sector and a troubled agriculture sector, coupled with declining remittances from Yemenis abroad, the 11.4 per cent GDP growth rate target of Yemen's 1987-1991 Plan is apparently extremely unlikely to be achieved.

As for Saudi Arabia, it is time that its new Five-Year Development Plan aims at a higher GDP growth rate target than the previous Plan. However, it should be noted that the GDP level and oil revenues of the base year (1980) of the 1980-1985 Plan are considerably greater than that of the base year (1985) of the new development plan 1985/1986-1999/1991. The 4.0 per cent planned average annual GDP growth rate of the 1985/86-1990/91 Plan of Saudi Arabia is modest and certainly attainable, particularly if the international oil market witnesses a gradual increase in demand during the development plan period.

V. Economic co-operation among ESCWA countries

In 1987 efforts were intensified by several ESCWA countries to increase economic co-operation among themselves. For example, in May 1987 the industry ministers of GCC countries met in Riyadh, Saudi Arabia and agreed to lay down a basis for a unified industrial system to meet the region's demands. Joint prospects were also reviewed and recommendations were made to consolidate several proposed ventures of this type, such as the manufacturing of telephone cables in Saudi Arabia, telephone instruments in Kuwait and tyres in Bahrain.

Jordan exerts every effort to increase its economic co-operation with the other Arab countries and actually sets the strengthening of economic co-operation with the Arab countries as one of the targets of its new Five-Year Development Plan. The Joint Egyptian-Jordanian Commission was established by these two countries to promote co-operation between them. It meets twice a year and is co-chaired by the Prime Ministers of Egypt and Jordan. Under a protocol signed by these two countries in early 1987, Jordan is to receive Egyptian expertise in the manufacturing of power cables, aluminium conductors and insulators.

In addition, Jordan and Iraq have signed protocols to boost co-operation in trade, energy, industry, transportation and finance.

Moreover, four Arab countries - Algeria (non-ESCWA country), Egypt, Iraq, and Saudi Arabia - are planning to set up a joint steel plant with an annual production capacity of 120,000 tons. Feasibility studies for the venture were discussed in an early 1987 meeting in Baghdad. It was agreed that such a plant was needed to meet future demand for steel products in the Arab world. The project, however, is likely to take several years to complete.

Furthermore, discussions concerning Kuwaiti investment in Egypt, particularly in real estate, housing, industry, agriculture, tourism, trade and finance, took place in early 1987. The Kuwaiti delegation was assured by the Egyptian Government of full freedom for pricing products of investment projects without any intervention on the part of the Government.

It is indeed encouraging that various economic co-operation agreements have been signed by several ESCWA countries. However, what is needed is the early implementation of these agreements. Planning for long-term economic co-operation between ESCWA countries should be made, but action should be taken to implement joint ventures as soon as possible without interruptions caused by changing political environments. The Economic and Social Commission of Western Asia and the various regional developmental institutions should make every effort to strengthen and increase economic co-operation among the countries of the region.

VI. Outlook

Economic conditions in the ESCWA region during the first half of 1987 were considerably better than during the same period of last year. Furthermore, there is every indication to expect a much brighter outlook in 1987 than 1986 for economic growth and development in Western Asia as a whole.

Although there is a strong linkage between the various countries in the ESCWA region, mainly via the flow of human and financial resources, economic performance differs among the three groups of countries which include: the GCC countries, i.e. Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates; the more diversified economies: i.e., Egypt, Iraq, Jordan, Lebanon and the Syrian Arab Republic; and the region's two least developed countries, Democratic Yemen and Yemen, as well as between the countries themselves.

1 The GCC countries

For the first time since 1980 all six members of the GCC are expected to record positive economic growth in 1987. All countries of this group have taken measures to revive their respective economies from the overall recessionary conditions which they suffered in 1986. Most countries have followed slightly expansionary monetary and fiscal policies in 1987, which coupled with the sharply rising oil revenues, should lead to a rebound of economic activities in the GCC countries and a dramatically improved overall economic environment.

(a) Bahrain

Bahrain has the most diversified economy among the GCC countries. Its generally dynamic banking sector, coupled with an active trade sector and a light industrial base have helped Bahrain to weather the declining performance of its oil sector and the general recessionary pressures in the dominant economies of the GCC in 1983 and 1984. However, with continued declines in oil revenues in 1985 and an additional sharp cut in 1986, Bahrain's economy recorded negative growth rates in both 1985 and 1986. The GDP of Bahrain is estimated to have recorded a negative 4.5 growth rate in 1986.

Bahrain's generally diversified economy will benefit from its rising oil revenues in 1987 as well as the generally improved economic conditions of the other GCC countries with which it has strong economic links. It is projected that Bahrain's economy will record a positive GDP growth rate of 4.0 per cent in 1987.

(b) Kuwait

Kuwait's economy, is heavily dependent on its oil resources. The sharp declines in oil revenues in 1986 were accompanied by a general contraction in the various sectors of the economy particularly the construction and banking sectors. Hence, its GDP in 1986 recorded an estimated negative growth rate of 8.0 per cent.

The authorities have taken action in late 1986 and 1987 to revive the economy and restore the confidence of the business community in the economy of Kuwait. Expansionary monetary and fiscal policies were pursued. The performance of the construction sector is expected to improve, as the recessionary conditions of the past few years have resulted in the withdrawal of the weaker and inefficient companies. The remaining construction firms will benefit from higher government expenditures, particularly on housing and the new Kuwait university campus.

In addition, the government-sponsored programmes to settle problem loans has clearly contributed to restoration of confidence in the banking sector, which has cautiously resumed lending to local entrepreneurs. Credit facilities to the private sector in April 1987 were 7 per cent higher than a year ago, following the Kuwait Central Bank policy to lower interest rates. An encouraging sign that the Kuwaiti economy is rebounding is the stock exchange's share index rise of 20 per cent during the first quarter of 1987. Analysts are predicting that share prices may rise by 60 per cent on average in 1987.

In addition to the various measures taken by the Government to help the Kuwaiti economy to recover, the country will benefit from the returns from its wise overseas investments as well as the significantly improved international oil market.

It is estimated that the GDP of Kuwait will record a 2 per cent increase in 1987. This modest figure is below the 3.9 per cent average annual growth rate targeted in the country's Five-Year Development Plan which started in July, 1985 but at least it is positive growth. Moreover, with the expected firming of the international oil market, Kuwait may possibly attain its targeted growth rate in the coming few years.

(c) Oman

Oman is not a member of OPEC and was able to increase its oil production considerably in 1985 and record a positive GDP growth rate of 13.8 per cent in nominal terms. However, with the approximately 47 per cent drop in oil prices in 1986, Oman was only able to increase its oil production by around 13 per cent. Hence, Oman's oil revenues fell sharply in 1986 and triggered government cutbacks, which together contributed to an estimated negative GDP growth rate of around 5.0 per cent in 1986

The slightly expansionary monetary and fiscal policies pursued by Oman in 1987, accompanied by rising oil revenues, should contribute to a positive, yet modest, GDP growth rate in 1987.

(d) Qatar

Qatar's economy, dangerously dependent on oil revenues, suffered greatly in 1986. Its GDP is estimated to have declined by more than 13 per cent in 1986.

The Qatari Government has taken various measures to help to revive the economy in 1987. It began the North field natural gas projects 1/. It is estimated that the country's offshore north field proven recoverable reserves amount to 150 trillion cubic feet of non-associated gas, which is equivalent to twice the remaining reserves in Holland's super-giant Groningen field 2/.

This major project is expected to be completed in several years, and will enable Qatar to export large quantities of liquefied natural gas and thus supplement its revenues from oil exports. In the meantime, while the project is being implemented, the economic activities in the country will be positively affected. Preliminary projections indicate a modest growth in Qatar's GDP in 1987.

1/This project was previously postponed due to financial considerations.

2/ Petroleum Intelligence Weekly. 25 May 1987. p.5.

(e) Saudi Arabia

Saudi Arabia increased its oil production by around 58 per cent in 1986 but witnessed an oil revenues decline of 8.2 per cent due to the tumbling oil prices. In 1987, the reverse is taking place. Oil prices, which are set by OPEC at around the price marker of \$18 per barrel are higher, than last year's average. Though Saudi Arabia is expected to produce in 1987 less oil than last year it should be receiving larger oil revenues. The Saudi Government is pursuing moderately expansionary monetary and fiscal policies, which are desirable given the negligible inflation rates it has enjoyed for the past several years. The various measures taken to expedite solutions concerning banking matters are expected to improve the situation of the banking sector which is suffering from non-operating loans. In addition the efforts made to market Saudi Arabia's petrochemical products and expand further the rapidly developing agricultural sector are expected to yield positive results this year. Saudi Arabia's GDP, which is estimated to have declined by 8.4 per cent in 1986, is projected to grow by around 3 per cent in 1987.

(f) The United Arab Emirates

Like most other GCC countries, the GDP performance of the United Arab Emirates is greatly affected by developments in the international oil market./

In 1986, the United Arab Emirates produced an average of 1.365 m/b/d which was 13.4 per cent greater than in 1985. Oil revenues, however, dropped to 6.5 billion in 1986 representing a 38.1 per cent decline from the previous year.

The United Arab Emirates' GDP is estimated to have contracted by almost 5 per cent in 1986. The rise in oil revenues due to the rebound of the international oil market in 1987 is expected to contribute to a positive, but modest, growth in the country's GDP this year.

2 The More Diversified Economies

The more diversified economies of Western Asia were negatively affected, directly and/or indirectly by the declining oil revenues in 1986. Their combined GDP which had increased by 3.7 per cent in 1985 is estimated to have risen by less than 1 per cent in 1986. The economic performance of the more diversified economies as a group has apparently improved in 1987. However, large variations in economic conditions exist among their group of countries.

(a) Egypt

In spite of Egypt's estimated GDP growth rate of 4.2 per cent in 1986, the country's economy was suffering from many problems. Its revenues from each of its major foreign exchange sources: oil revenues, transferred remittances from its workers abroad, tourism and Suez Canal dues were falling in 1986. Egypt's oil production in 1986 was 12.6 per cent below its 1985 level. Due to this decline in production, coupled with tumbling oil prices as well as rapidly rising domestic consumption, Egypt's revenues from exported oil were almost 2 billion dollars below their level in the previous year.

Furthermore, with recessionary conditions prevailing in the GCC countries, employment opportunities and/or wages of expatriate workers in these countries declined. Hence remittances transferred by Egyptians to their country declined in 1986.

Tourism was negatively affected by some political disturbances in early 1986. Also, dues from the Suez Canal were generally stagnant.

Since Egypt's earnings of foreign exchange in 1986 were reduced at a time when the country's external debt service payments were rising, Egypt faced an acute foreign exchange shortage and was on the brink of defaulting on its loans.

By coming to terms with the IMF in 1987, Egypt received financial breaks from the IMF as well as from the Paris Club. This will give Egypt a much needed relief at a time in which it is to implement the IMF economic reform package.

The foreign exchange problem seems apparently solved for this year at least. Oil revenues are rising, tourism earnings are increasing rapidly ^{1/}, and foreign exchange earnings from remittances transferred by Egyptian workers as well as from Suez Canal dues are expected to rebound in 1987. Moreover, the new exchange rate of around \$1 = LE 2.20 which is quite close to the free (but illegal) market rate, has helped to channel greater proportions of transferred remittances and tourism earnings through the Egyptian commercial banking system.

The depreciation of the Egyptian pound is expected to encourage exports (non-oil) and discourage imports, and hence reduce Egypt's trade deficit in 1987. The problem is that this will also contribute to inflationary pressures in the country. In addition, the 20 per cent raise granted to public employees will push prices up further. Also, rising energy costs and the removal of controls on agricultural products are expected to contribute to the acceleration of inflation in Egypt in 1987.

The tighter monetary and fiscal policies, while combating inflation, will slow down economic activities in 1987. On the other hand, rising foreign exchange revenues from Egypt's four main sources and the expected increase in production of non-oil exports and imports substitutes will be pushing the economy forward. Therefore, the overall net effect on Egypt's GDP in 1987 is difficult to project at this moment.

(b) Iraq

The economic picture in Iraq is much brighter in 1987 than it was last year. Like other major oil-exporting countries, Iraq's oil revenues were sharply curtailed in 1986 leading to contracting pressures on the economy and a wider trade deficit gap.

^{1/} The Egyptian Minister of tourism recently indicated that during the last six months tourists spent \$850 million, which was equivalent to tourism revenues for the whole of 1986. (Al Ahram, 18 August 1987, p.1)

This year, Iraq's oil revenues are expected to record sharp gains, due to higher prices and substantially greater output compared with last year. Also economic conditions are expected to improve this year due to the sincere government efforts to reform and enhance the performance of industry and agriculture. Iraq, being one of the region's more diversified economies, would witness impressive growth of its GDP if these two sectors produce up to their potential.

The expected improvement in the performance of Iraq's economy in 1987 will be limited by the large human and physical capital which the country is forced to allocate for defending its border with Iran.

Among other detrimental effects on Iraq's economy, the Iraq-Iran war has contributed to the depletion of most of Iraq's estimated \$30 billion in reserves which it possessed in 1980 and the accumulation of a sizeable external debt 1/. Payment of much of the long-term debt (which represents the bulk of the total external debt) falls due between 1980 and 1992. Thus Iraq's current foreign exchange problems may become more pronounced in 1988 if no agreement to reschedule large portions of debt service payments is concluded^{2/}.

(c) Jordan

Jordan's GDP was estimated to have recorded a meager (but positive) growth rate of 0.8 per cent in 1986. However, on the bright side, the country's inflation rate was negligible in 1986 and Jordan's external debt situation was improving.

A major problem that Jordan has to tackle in 1987 is its rising unemployment rate. Many of those unemployed are university graduates. With the slowing down of the Jordanian economy during the last few years and the recessionary conditions in the GCC countries - where thousands of Jordanian graduates have previously found immediate employment - the employment rate continues its rise. The Jordanian Government has indicated the increase in employment opportunities in Jordan as one of the targets of its new Five-Year Development Plan (1986-1990).

Though the recent intensification of efforts to further privatize the Jordanian economy may be expected to increase overall efficiency and productivity, the performance of the country's GDP will be affected mostly by the level of expatriate remittances and Arab aid and grants. These two financial sources may be expected to improve in 1987, given the improved economic environment in the GCC countries. Jordan's GDP is projected to grow by approximately 3 per cent in 1987.

1/ Iraq's external debt is estimated to range between \$20 billion and \$50 billion, depending on whether most of the financial support from other Arab countries is considered as grants or soft loans (which have to eventually be repaid).

2/ Certainly, if the Iraq-Iran war ends and/or Iraq's oil revenues continue their rapidly rising trend, foreign exchange difficulties may more easily be resolved.

(d) Lebanon

The Lebanese economy has suffered greatly from the civil strife which has engulfed the country since 1975, and particularly after the Israeli invasion of Lebanon in 1982. Economic conditions deteriorated sharply in 1985 and 1986. The economy is in great danger of experiencing a total collapse in 1987.

The Lebanese pound, as indicated above, has depreciated significantly during the past few years and is losing its value much faster this year. This has contributed to an explosion in prices, with preliminary reports indicating that inflation is currently running at an annual rate of 300 per cent.

The Lebanese Government is considering selling 20 per cent of the gold reserves it has at the Central Bank. This may halt the rapid deterioration of the Lebanese pound, but only temporarily. The prospects for the Lebanese economy in 1987 and after are bleak, unless peace and order are restored to this troubled country.

(e) Syrian Arab Republic

The Syrian Arab Republic experienced poor economic conditions in 1986. While suffering from an estimated rate of inflation of 25 per cent, acute foreign exchange shortages and dangerously low levels of international reserves, its GDP registered an estimated decline of 0.94 per cent.

The large defence budget burden on the Syrian resources, declining oil revenues and falling remittances from its expatriate workers, accompanied by declining financial aid from other Arab countries, all contributed to the deterioration in the economic conditions of the country last year.

In the country's 1987 budget, overall government expenditures are set at \$10.6 billion, which in nominal terms is 5 per cent below last year's level. However, considering that the inflation rate in the country has been quite high, the expected real government cutbacks are considerable.

The Syrian Government is determined to overcome the electric power shortages that often took place in 1986. These power shortages negatively affected industrial production and retarded economic development and growth. Large portions of the country's investments in 1987 are allocated to electricity projects and power plants.

Given a contractionary fiscal policy, reductions in investment, large defence outlays and a heavy external debt service burden, the performance of the country's GDP is not projected to be significantly better in 1987 than last year.

3 The Least Developed Countries (LDCs).

The combined GDP of the ESCWA region's two least developed countries, Democratic Yemen and Yemen, grew by an estimated 3 per cent in 1986. However, the combined GDP figure covers the fact that while Democratic Yemen's GDP is estimated to have declined by 4.7 per cent, that of Yemen grew by almost 5 per cent.

(a) Democratic Yemen

The economy of Democratic Yemen suffered from the political disturbances that took place in the country in early 1986.

This year, government officials are making every effort to put the economy back on a positive growth track. The public sector, unlike the trend in most ESCWA countries and many other developing and developed countries, is called upon to play a greater role in the country's economy. The public sector will finance most of the planned investment during its 1987-1991 development plan. The activities of the private sector are to be limited to the agriculture and fisheries sector.

The economy of Democratic Yemen, like Yemen's, is greatly dependent on remittances from expatriate workers and technical and financial aid from Arab countries as well as multilateral sources. Due to improvements in the general economic environment in the GCC countries, the expected increase in flow of capital to Democratic Yemen should help it to achieve a projected positive, but modest, GDP growth in 1987.

(b) Yemen

Yemen's economic conditions are expected to improve starting November 1987 when the country begins producing oil at a rate of 200,000 b/d. Yemen is to consume around 45,000 b/d and export the rest.

However, the country's proven oil reserves are estimated to be 1 billion barrels. At an average production rate of 200,000 b/d, Yemen would exhaust its oil supply in less than 14 years 1/.

Thus, like Democratic Yemen, the country remains an LDC and is in need of financial and other aid from friendly countries and international development agencies.

1/ Unless additional reserves are found.