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**REVIEW OF DEVELOPMENTS AND TRENDS IN
THE MONETARY AND FINANCIAL SECTORS
IN THE ESCWA REGION, 1993**



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ABBREVIATIONS

GDP	Gross Domestic Product
GNP	Gross National Product
BIS	Bank for International Settlements
GCC	Gulf Cooperation Council
IMF	International Monetary Fund
OECD	Organization for Economic Cooperation and Development
CBJ	Central Bank of Jordan
CBK	Central Bank of Kuwait
SAMA	Saudi Arabian Monetary Agency
AFM	Amman Financial Market
CSE	Cairo Stock Exchange
KSM	Kuwaiti Stock Market
SSM	Saudi Stock Market

CDs	Certificates of Deposits
RFFG	Reserve Fund for Future Generations

BD	Bahraini dinar
£E	Egyptian pound
ID	Iraqi dinar
JD	Jordanian dinar
KD	Kuwaiti dinar
LL	Lebanese pound
RO	Omani riyal
QR	Qatari riyal
SR	Saudi riyal
LS	Syrian pound
Dh	United Arab Emirates Dirham
YR	Yemeni riyal
\$	United States dollar

..	to indicate that data are not available
--	to indicate that the figure is zero or less than half the final digit shown
/	between years (i.e., 1991/1992) to indicate a fiscal (financial) year
-	between years or months (i.e., 1990-1992 or January-June) to indicate the years or months covered, including the beginning and ending of years or months

Introduction

This study has been prepared by the Economic and Social Commission for Western Asia (ESCWA) in implementation of activity 2(a), titled "developments and trends in the monetary and financial sectors in the economies of the ESCWA region", of the Commission's programme of work and priorities for the period 1994-1995 in Public Administration and Finance. It reviews and analyzes developments and trends in the monetary and financial sectors in the economies of the ESCWA region.¹

The impact of the Gulf crisis on fiscal developments in the ESCWA region continued in 1993 to be reflected in significant budget deficits in most ESCWA countries, particularly the GCC countries,² necessitating major revisions in public spending priorities, to adjust to the fall in oil revenues, the major source of government income, and entailing significant cuts in budget expenditures in a number of these countries. Some of these countries have also been considering a broad-based review of economic policies, including an examination of the subsidies system and the potential for introducing taxes in the non-oil sector. Drawing on foreign reserves, and resorting to domestic and external borrowing, to finance budget deficits and investment projects remained as significant as in the last few years.

While the GCC countries were able to resort to such instruments for financing budget deficits and investment projects, other ESCWA countries, particularly Egypt, Jordan and Lebanon, resorted to instruments of domestic revenues mobilization, such as improving tax collection methods and introducing new taxes. Other means resorted to included reducing subsidies and granting lower raises in public sector wages and salaries.

Banks in the ESCWA region continued in 1993 to suffer from a mounting burden of non-performing loans, most of which were contracted during the 1980s. These loans, estimated at around \$25 billion at the end of 1993, constituted close to 35 per cent of total bank lending, around 9 per cent of total bank assets and five times the combined profit of banks in the ESCWA region.

Stock markets in the ESCWA region are increasingly being recognized as a prerequisite for economic and financial development, especially in those countries where the dominant role of the state in economic activity has been on the wane. The opening up of the economy to market forces in a number of ESCWA countries has given closely held companies the opportunity to raise funds from non-traditional sources, thus paving the way for financial institutions to diversify their lending and investment portfolios. In spite of the surge in stock market activity during the last few years, stock markets in the region remained pre-emerging markets, particularly in terms of the volume of foreign direct investments being attracted. Foreign direct investments channelled to the ESCWA region through the stock markets were only 1.4 per cent (\$800 million) of total developed countries foreign direct investments (\$56 billion) in other developing regions.

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

² The GCC countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and The United Arab Emirates.

ESCWA external debt continued to increase in 1993, amounting to around \$186 billion, up by around 3.2 per cent on 1992, and representing close to 50 per cent of the region's aggregate GDP. The region, thus, remains heavily indebted in terms of both GDP and export of goods and services, compared to other developing regions. However, the region as a whole faced fewer debt-related problems in 1993 than in the past, mainly due to rescheduling and forgiveness of substantial portions of the debts of a number of countries, particularly Egypt, and to a lesser extent Jordan and the Republic of Yemen.

Privatization efforts continued in the ESCWA region, though at a slow pace. Privatization has been set in motion either in accordance with economic reform and structural adjustment programmes agreed upon with the IMF, or as a consequence of changed government perception and economic and financial necessity. However, privatization has been considered by most ESCWA countries as an opportunity for the development of financial markets.

I. FISCAL DEVELOPMENTS

Fiscal developments in the GCC countries in 1993 were still affected by the ramifications of the Gulf crisis and war, with some of these countries either drawing on their foreign resources or borrowing from domestic and international financial markets to finance budget deficits. The drop in oil revenues added to the budget burdens of these countries, especially Saudi Arabia, Kuwait and Oman, as reflected in the significant increases in the 1993 projected budget deficits. The expectation of continued pressure on oil prices in 1994 has prompted most of the GCC countries to consider significant cuts in public expenditures, with Saudi Arabia, for example, planning a cut of 19 per cent, mostly subsidies, through lower purchases of cereals that account for most of the budget subsidies. Other measures aimed at reducing budget deficits included increased efforts concerning the introduction of a taxation system in some countries, as well as privatization of public sector enterprises in others. Kuwait is considering a new system of fees, duties and stamps and a more realistic pricing system for public goods and services, as well as privatization of the telecommunications services and the electricity power station in Shuaiba.

In the more diversified economies, fiscal developments in 1993 were characterized by significant inter-country differences. While in Jordan and Lebanon the estimated 1993 deficits reflect lower spending and higher revenues than previously projected, hence resulting in lower than projected deficits, the estimated 1993 deficit for the Republic of Yemen turned out to be more than double the one projected. The 1993 budgets of most countries in the group were intended to be deflationary, with expenditures increasing at rates below inflation, thus reflecting the intention to reduce budget deficits in the light of the reduced availability of financial resources, particularly from the GCC countries. The more diversified economies continued in 1993 to seek alternative means to finance their budget deficits by increasing budget revenues, or by reducing expenditures through reduction in subsidies or payments for servicing domestic as well as external debt, with the former being made through lowering the domestic interest rate, and the latter through rescheduling or forgiveness of debt.

A. GCC countries

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

Kuwait

The 1993/1994 Government budget projects revenues at KD 2,713.7 million (\$9,121.6 million), of which KD 271.4 million are allocated to the so-called Reserve Fund for Future Generations (RFFG), as per Law No. 106 of 1976 (table 1).³ Budgeted expenditures are set

³ Law No. 106 of 1976 stipulates that 10 per cent of oil revenues be allocated to the Reserve Fund for Future Generations.

at KD 3,937 million (\$13,233.4 million), i.e. slightly below the 1992/1993 allocations of KD 4,000 million. The 1993/1994 budget deficit, including the allocation for the RFFG, is projected at KD 1,223 million (\$4,112 million), down by around KD 441 million from the deficit in fiscal 1992/1993. The lower deficit reflects the expected rise in oil revenues rather than a decrease in expenditures. Oil revenues are projected to rise by around 21 per cent over their level in the 1992/1993 budget and to account for 89 per cent of total revenues. Oil revenues have come to dominate budget revenues in the last few years, owing to the significant draw down on foreign reserves, whose returns, though not appearing in the budget, were almost equal to oil revenues in the three years preceding the Gulf crisis.

Table 1. Kuwait : budget, 1991/1992 - 1993/1994
(Millions of Kuwaiti dinars)

	1991/1992	1992/1993	1993/1994
<u>Revenues</u>	<u>870.0</u>	<u>2218.0</u>	<u>2713.7</u>
Oil revenues	700.1	2000.3	2419.8
<u>Expenditures</u>	<u>6219.0</u>	<u>4000.0</u>	<u>3937.0</u>
<u>Deficit</u>	<u>(5349.0)</u>	<u>(1782.0)</u>	<u>(1223.3)</u>

Source: National Bank of Kuwait, Economic and Finance Quarterly, I, 1994.

() = Deficit.

However, the published Kuwaiti budget includes neither the Government's revenues from foreign investments nor the off-budget defence expenditures. It is worth mentioning in this regard that out of the defence reinforcement budget, totalling KD 3,500 million (\$11,764 million) and approved in March 1993 by the Kuwaiti Parliament to be spent over twelve years, KD 1,200 million (\$4,033.6 million) were already spent or committed in 1993.

Oman

Oman's budget for 1994 projects expenditures of RO 2,033.0 million (\$5,279.7 million), down by around 3.7 per cent from 1993 (RO 2,111.5 million). With revenues budgeted at RO 1,732.1 million (\$4,498.2 million), up by 3.6 per cent on 1993 (RO 1,671.5 million), the resulting deficit will amount to RO 301 million (\$782 million), or RO 75 million below 1993 and RO 277 million below 1992 (table 2).

The size of the deficit is considered small, compared with the deficits of other GCC countries. It is expected to be financed through domestic and external borrowing as well as drawing on the country's reserves. Indeed, the draw on reserves is planned to amount to RO 221 million in fiscal year 1994, down by RO 71 million from 1993, but still up by RO 72 million on 1992, when the budget deficit was at its highest during the last five years, amounting to RO 578 million (\$1,501 million). Further, the Government's development bond programme, introduced in 1991 as a vehicle for budget deficit financing, has been highly successful owing to the attractive interest rates offered. The programme raised

around RO 262 million (\$680 million) during the last three years and is set to raise RO 42 million in fiscal year 1994.

Table 2. Oman : budget, 1989-1994
(Millions of Omani riyals)

	1989	1990	1991	1992	1993	1994
	Actual				Budget	
<u>Revenues</u>	<u>1349.0</u>	<u>1858.7</u>	<u>1570.4</u>	<u>1628.0</u>	<u>1671.5</u>	<u>1732.1</u>
Oil	1129.5	1588.3	1289.5	1276.1	1363.0	1380.4
Current	215.4	264.8	279.9	315.0	302.0	318.5
Capital	4.1	5.6	6.0	6.5	6.5	^{a/} 33.2
<u>Expenditures</u>	<u>1644.7</u>	<u>1869.8</u>	<u>1853.4</u>	<u>2239.9</u>	<u>2111.5</u>	<u>2033.0</u>
<u>Current</u>	1361.1	1570.1	1463.0	1738.5	1617.5	1585.9
Defence and security	600.6	742.3	643.3	777.8	630.3	612.0
Civil ministries	600.0	600.0	674.1	780.0	793.2	765.7
Interest on loans	94.5	92.4	69.4	99.0	106.0	114.0
Petroleum	66.0	75.4	67.2	82.0	88.3	94.2
Development Oman						
<u>Capital</u>	<u>270.3</u>	<u>285.8</u>	<u>391.7</u>	<u>471.0</u>	<u>495.8</u>	<u>431.0</u>
Net lending and equity participation	13.3	13.9	-1.3	30.1	-1.8	15.5
<u>Deficit</u>	<u>(295.7)</u>	<u>(11.1)</u>	<u>(283.0)</u>	<u>(578.0)</u>	<u>(375.0)</u>	<u>(301.0)</u>
<u>Financing</u>	<u>295.7</u>	<u>(109.0)</u>	<u>94.2</u>	<u>195.1</u>	<u>375.0</u>	<u>300.9</u>
Net aid	6.2	-21.7	-1.3	-6.0	0.0	10.9
Net loans received	34.6	-147.3	4.9	-23.0	0.0	21.0
Drawing on reserves	254.9	0.0	50.0	149.0	292.0	221.0
Government development bonds	..	..	40.6	138.3	83.1	48.0
<u>Changing Government accounts</u>	<u>0.0</u>	<u>(180.1)</u>	<u>(188.8)</u>	<u>(383.4)</u>	<u>0.0</u>	<u>0.0</u>

Source: Middle East Economic Survey, 6 September 1993 and 7 February 1994.

a/ Including capital recoveries of RO 26.7 million.

() = Deficit.

Expenditures have been cut across the board in the 1994 budget in an attempt to compensate for expected lower oil prices and contain the deficit, with most of the cut being made in capital expenditures and expenditures of civil ministries. Although the allocation for defence and security is set to drop from RO 630 in 1993 to RO 612 million in 1994, its share in total expenditures remained almost the same as in previous years, namely around 30 per cent. The only budget item to show increase in 1994 is expenditures on Petroleum Development Oman, apart from the account for loan repayments which is set to increase from minus RO 1.8 million to RO 15.5 million.

Saudi Arabia

The Saudi budget for 1994 indicates a zero-deficit with both revenues and expenditures set at SR 160 billion (\$42.7 billion), reflecting a cut of around 19 per cent in expenditures and a drop of around 6 per cent in revenues, relative to 1993 (table 3). The cut in expenditures was received positively by Saudi financial circles, in that it helped stabilize the currency market and stem speculation against the Saudi riyal. Following the announcement of the budget on 1 January 1994, the riyal interest rate for short-term money fell to 4 5/8 per cent, down from 6 3/8 per cent before the announcement.

Table 3. Saudi Arabia : budget, 1988-1994 ^{a/}
(Billions of Saudi riyals)

	<u>1988</u>		<u>1989</u>		<u>1990</u>		<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
	B	A	B	A	B	A	B	B	B	B
<u>Revenues</u>	<u>105</u>	<u>85</u>	<u>116</u>	<u>115</u>	<u>118</u>	<u>155</u>	<u>118</u>	<u>151</u>	<u>169</u>	<u>160</u>
of which: non-oil		36		39		37	..	..	..	40
<u>Expenditures</u>	<u>141</u>	<u>135</u>	<u>141</u>	<u>150</u>	<u>143</u>	<u>210</u>	<u>143</u>	<u>181</u>	<u>197</u>	<u>160</u>
<u>Deficit</u>	<u>(36)</u>	<u>(50)</u>	<u>(25)</u>	<u>(35)</u>	<u>(25)</u>	<u>(65)</u>	<u>(25)</u>	<u>(30)</u>	<u>(28)</u>	<u>0</u>

Source: Middle East Economic Survey, 11 January 1993 and 10 January 1994.

a/ No budget was issued for 1991. The budget for 1990 was rolled over into 1991.

A = Actual.

B = Budget.

() = Deficit

The cut in expenditures has been most pronounced in allocations for municipalities and water by around 25 per cent below 1993 (SR 7 billion), and in freezing spending on new projects and limiting project spending to the completion of projects under construction. It reflects a cautious fiscal policy, indicating that only those expenditures be made that can be financed from available financial resources and do not add to the budgetary burden.

The 1993 budget, with an estimated SR 28 billion (\$8 billion) deficit, forced the Saudi Government to postpone the completion of a number of projects, delay payment for others, negotiate spreading payments with foreign arms suppliers and reduce subsidies, especially to the agricultural sector, by cutting purchases of cereals which account for a significant portion of total budget subsidies. However, the 1994 budget indicates that subsidies in the form of interest-free loans to agricultural, industrial and real estate ventures will continue. To this end, development bonds amounting to SR 7.9 billion (\$2.1 billion) will be issued.

The projected share of non-oil revenues in total revenues in the 1994 budget (25 per cent) is lower than it was in the three years preceding the Gulf crisis, when it averaged around 34 per cent. Oil revenues are projected to constitute between 75 and 80 per cent (\$32-\$34 billion) of total revenues in 1994, on the assumption of an average oil price of between \$13.5-\$14.5 per barrel.

Based on the significant increase in private investment spending in 1993, the Saudi Government expects the private sector to continue playing a major role in economic activity. Actually, the Government anticipates that higher investment spending by the private sector would compensate for the cut in budget expenditures. The planned interest-free loans by Government lending institutions to private sector agricultural, industrial and real estate ventures are supportive in this respect.

However, increased Government borrowing from local banks during the last few years, and the expected borrowing in fiscal 1994 to finance the budget deficit, could affect the capacity of the banks to lend to the private sector for financing investment spending, thus reducing its ability to offset the impact of the cut in budget expenditures.

B. Countries of the ESCWA region with more diversified economies

Most of the countries in this group made efforts in 1993 to improve fiscal management, particularly to reduce the rate of growth in budget deficits, mainly through increasing domestic revenues and lowering expenditures; the latter by cutting on subsidies and other transfers.

Following is a summary of fiscal developments in selected countries of this group.

Egypt

Egypt's budget for fiscal 1993/1994 envisages a 4.4 per cent increase in total expenditures over 1992/1993. However, the latter turned out to be around 17 per cent (£E 10,720 million) higher than actual expenditures of £E 51,813 million (table 4). Total revenues for fiscal 1993/1994 are set at £E 56,330 million, up by around 5.5 per cent (£E 2,941 million) over budgeted revenues and around 21 per cent (£E 9,829 million) higher than preliminary actual revenues in fiscal 1992/1993. The anticipated improvement in revenues is attributed to a significant rise in tax revenues which were around 43 per cent (£E 8,161 million) higher than budgeted in fiscal 1992/1993. The decline in expenditures from the projected £E 62,533 million to an actual £E 51,813 million in fiscal 1992/1993 resulted from significant cuts in both current and capital expenditures, with the former decreasing from £E

47,389 million to £E 40,886 million, and the latter from £E 16,740 million to £E 10,927 million.

The budget deficit in fiscal 1993/1994 is set at around 2 per cent below that in fiscal 1992/1993, but in reality is 69 per cent higher than the actual deficit of that year. Deficit financing will continue to rely heavily on domestic sources (borrowing), especially savings as well as sale of government bonds and treasury bills and notes, which are budgeted to contribute to around 60 per cent. However, while the 1992/1993 budget projected foreign sources (external borrowing) of deficit financing at £E 2,600 million, their actual amount was only £E 64 million, owing mainly to the significant decline in the deficit, namely from budgeted £E 9,144 million to an actual £E 5,312 million, thus making external borrowing no longer necessary. The budgeted £E 2,563 million of external borrowing needed in fiscal 1993/1994 is not likely to pose a problem in the international lending markets in light of the improved credit risk of Egypt as reflected in its high reserves/imports coverage (reserves/imports ratio),⁴ estimated at around 11 months at the end of 1993.

The main features of Egypt's 1993/1994 budget are :

- The 4.4 per cent increase in total expenditures is expected to result mainly from a 10 per cent rise in public sector wages and salaries, and a 19 per cent rise in expenditures on defence and security.
- In compliance with the IMF-sponsored economic reform and structural adjustment programme, subsidies are set to drop from £E 3,880 million to £E 3,641 million.
- Servicing both external and domestic public debt is set to decline significantly, with the former resulting from rescheduling and forgiveness of significant parts of the debt, and the latter from a drop in domestic interest rates. However, the significant amount of budgeted domestic debt interest payments in fiscal 1993/1994 (£E 11,700 million), though around 9 per cent below fiscal 1992/1993, reflects the substantial volume of public domestic debt, estimated at around £E 110 billion (\$33 billion) at the end of 1993.
- Tax revenues are set to increase by around £E 2 billion. However, the increase is expected to be much higher in light of the experience in fiscal 1992/1993 where actual tax revenues (£E 27,302 million) were 42.6 per cent (£E 8,161 million) higher than previously budgeted (£E 19,141 million), following improvement in tax collection methods and the introduction of the 10 per cent sale tax to replace the consumption tax.
- Oil and Suez Canal revenues are budgeted at almost the same level as in fiscal 1992/1993.

⁴ The minimum number of months of reserve/imports coverage being considered acceptable by the international lending markets is 2.5 months.

- Capital revenues are planned to increase by 17.5 per cent over their budgeted level in fiscal 1992/1993, thus reflecting a facilitation in the process of privatization of public sector enterprises.

Table 4. Egypt : budget, 1989/1990 - 1993/1994
(Millions of Egyptian pounds)

	1989/1990	1990/1991	1991/1992	1992/1993		1993/1994
	Actual			Budget	Preliminary actual	Budget
<u>Total expenditures</u>	<u>36393</u>	<u>45510</u>	<u>47563</u>	<u>62533</u>	<u>51813</u>	<u>65313</u>
<u>Current expenditures</u> of which :	<u>22446</u>	<u>29679</u>	<u>36198</u>	<u>47389</u>	<u>40886</u>	<u>46863</u>
Salaries	6064	7118	8029	9980	9771	11600
Subsidies	4140	5566	7237	3880	3952	3641
Public debt interest (domestic)	2969	4176	6359	12852	9295	11700
Public debt interest (external)	687	2870	3151	5271	3994	4850
<u>Capital expenditures</u>	<u>13947</u>	<u>15831</u>	<u>11365</u>	<u>16740</u>	<u>10927</u>	<u>18450</u>
 <u>Total revenues</u>	 <u>21876</u>	 <u>28559</u>	 <u>41406</u>	 <u>53389</u>	 <u>46501</u>	 <u>56330</u>
<u>Current revenues</u> of which :	<u>17047</u>	<u>25608</u>	<u>37834</u>	<u>47389</u>	<u>43503</u>	<u>49280</u>
Tax revenues	11743	15503	24286	19141	27302	21007
Oil revenues	782	3236	3715	4330	4626	4753
Suez Canal revenues	447	1361	3015	3116	3013	3091
Central bank revenues	553	1792	1556	4443	968	..
<u>Capital revenues</u>	<u>4829</u>	<u>2951</u>	<u>3572</u>	<u>6000</u>	<u>2998</u>	<u>7050</u>
 <u>Deficit</u>	 (14517)	 (16951)	 (6157)	 (9144)	 (5312)	 (8983)
Deficit financing						
Domestic borrowing	11269	3439	4374	6544	5248	6420
External borrowing	3243	13512	1783	2600	64	2563

Source: For fiscal 1989/1990 - 1992/1993, Central Bank of Egypt, Annual Reports 1991/1992 and 1992/1993. For fiscal 1993/1994, Middle East Economic Survey, 24 May 1993, 24 January 1994 and 23 May 1994.

() = Deficit.

Jordan

During the last few years, the Jordanian Government has been projecting budget deficits incorporating envisaged external aid and/or rescheduling of significant parts of its external debt, with the former contributing directly to increasing revenues and the latter to reducing debt service payments. In reality, Jordan's budget deficits have been higher than originally envisaged.

The 1994 budget does not deviate from this trend. Indeed, the projected zero-deficit in that budget (table 5) is based on the assumption that either foreign financial resources for financing the account concerning "settlement of loans and obligations", estimated at around JD 300 million, will be fully realized, or that the account concerning payment of interest on the external debt will be rescheduled. Consequently, the budget deficit in fiscal 1994 would range between JD zero and JD 300, depending on which of the two assumption will be realized.

With the Jordanian economy growing at high rates,⁵ domestic revenues are assumed to increase by around 13 per cent over the revised estimate for fiscal 1993, thus confirming the trend that emerged in recent years, where domestic revenues covered all of current expenditures, in addition to a significant part of capital expenditures. The contribution of domestic revenues to the financing of capital expenditures, excluding the expenditures account for settlement of loans and obligations, is planned at around 56 per cent, with the rest coming from external sources, either in the form of aid and grants or borrowing.

With capital expenditures acting as a "swing" account and, therefore, invariably under-spent, the contribution of domestic revenues is expected to be higher than planned. Actually, the aim of the Government is to have domestic revenues cover both current and capital expenditures in few years time, provided that current economic growth rates and higher tax revenues, following the introduction of the 10 per cent sales tax in early 1994, are sustained. Domestic budget revenues averaged around 80 per cent of total budget revenues, and around 72 per cent of total budget expenditures during the last five years.

Current expenditures in fiscal 1994 are projected to increase by around 7 per cent (JD 79 million), or by almost half the increase in domestic revenues of around 13 per cent (JD 154 million). This assumes a freeze in public sector wages and salaries. However, following a recent Government decision (May 1994) for a pay increase of 10 per cent for Government employees, current expenditures are expected to be higher than budgeted, and consequently the budget deficit.

⁵ GDP growth rate was around 11 percent in 1992 and 6 percent in 1993. The anticipated annual growth rate for the period 1994-1997 is around 5 percent.

Table 5. Jordan: budget, 1989 - 1994
(Millions of Jordanian dinars)

	1989	1990	1991	1992	1993	1994
	Actual				Preliminary actual	Budget
<u>Total expenditures</u>	<u>1102.3</u>	<u>1120.1</u>	<u>1234.2</u>	<u>1348.8</u>	<u>1623.1</u>	<u>1487.0</u>
<u>Current expenditures</u>	<u>749.7</u>	<u>841.4</u>	<u>904.0</u>	<u>929.5</u>	<u>1049.2</u>	1128.4
of which :						
Wages and salaries	159.0	165.4	186.5	240.3	272.4	335.1
Public debt interest (domestic)	45.5	45.8	39.2	32.4	30.8	..
Public debt interest (external)	92.4	129.5	141.0	123.4	125.0	..
Subsidies ^{a/}	148.0	193.2	190.1	176.1	219.9	..
Defence and Security	251.5	254.7	269.7	272.8	299.6	344.5
<u>Capital expenditures</u>	<u>352.6</u>	<u>278.7</u>	<u>330.3</u>	<u>419.2</u>	<u>573.9</u>	^{b/} <u>358.6</u>
of which :						
Land, buildings and construction	169.8	131.9	113.3	138.9	177.8	..
Settlement of loans and obligations	109.7	87.4	134.7	171.0	281.2	..
<u>Total revenues</u>	<u>855.5</u>	<u>938.1</u>	<u>1112.0</u>	<u>1358.7</u>	<u>1368.3</u>	<u>1487.0</u>
<u>Domestic revenues</u>	<u>565.4</u>	<u>744.0</u>	<u>828.8</u>	<u>1168.9</u>	<u>1176.3</u>	1330.0
of which :						
Tax revenues	273.9	383.9	401.5	639.3	649.5	..
Non-tax revenues	291.5	360.1	427.3	529.6	526.8	..
<u>External revenues</u> (aid and grants)	290.1	194.1	283.2	189.8	192.0	156.0
<u>Deficit</u>	(246.8)	(182.0)	(122.2)	9.9	(254.8)	0.0
<u>Deficit financing</u>						
Domestic borrowing	22.3	14.4	(7.1)	(51.2)	(35.7)	..
External borrowing	96.0	129.7	211.4	208.6	9.3	..
<u>Net deficit</u>	(128.5)	(37.9)	82.1	167.3	(281.2)	..

Source: Central Bank of Jordan, Monthly Statistical Bulletin, (various issues); and Economist Intelligence Unit, Country Report, Jordan, First quarter 1994.

a/ Including subsidies for compensation and pension.

b/ Excluding settlement of loans and obligations, amounting to around JD 300 million.

() = Deficit.

INSET 1*

LEBANON : Recent monetary and fiscal developments

The estimated actual budget of Lebanon for 1993 shows that expenditures were lower by around 8 per cent than budgeted, and revenues higher by over 5 per cent, resulting in a deficit lower by around 20 per cent than budgeted, equivalent to 43 per cent of expenditures rather than the budgeted 50 per cent. The increase in revenues resulted from improved tax collection. It did not involve any rise in taxation rates or the introduction of new taxes. The budgeted expenditures of LL 4,080 billion (\$2.4 billion) in 1994 represent a 30 per cent increase over estimated actual expenditures of LL 3,150 billion (\$1.9 billion) in 1993, and the budgeted deficit of LL 1,835 billion (\$1.1 billion) an increase of 35 per cent over the estimated actual deficit in 1993. The 1994 budget, approved by the Lebanese Parliament in early 1994, reflects a continuation of the policies begun in 1993, aiming at financial and monetary stability.

It is the first time in many years that the budget has been submitted to the Parliament and approved within the constitutional period. The budget comprises all items of government expenditures, including those which have been assigned "off-budget" status in the past. The only exception is project spending which is to be financed from external sources.

Lebanon : budget, 1993-1994
(Billions of Lebanese pounds)

	<u>1993</u>	<u>1993</u>	<u>1994</u>
	Budget	Actual	Budget
Expenditures	3,400	3,150	4,080
Revenues	1,700	1,792	2,245
Deficit	(1,700)	(1,358)	(1,835)

Source : Middle East Economic Survey, 24 January 1994.

Exchange rate : \$1 = LL 1,707
() = Deficit.

* Information in this inset is derived from various national and international sources.

The Central Bank's foreign currency reserves were around \$1.9 billion at the end of 1993, up by around \$500 million over 1992. Gold reserves of the Central Bank stood at 9.3 million ounces (around \$3.5 billion), unchanged since the early 1970s. The exchange rate of the Lebanese pound remained stable tending to improve slightly during most of 1993, with the Central Bank's efforts focusing on preventing appreciation of the Lebanese pound rather than supporting it.

In an attempt to improve the business climate, the Government prepared a new tax and customs legislation. Plans have also been initiated concerning the reduction of the overall public service payroll and streamlining government decision-making procedures. The removal of public sector bottlenecks and restrictions on private sector economic activity have been made a government priority.

The new customs legislation aims at raising the exchange rate, on the basis of which customs dues are assessed, from \$1 = LL 800 to the current market rate, although the dues themselves will be halved so that imports will be paying almost the same amount. The benefit of the new customs legislation lies in its flexibility and simplicity; the latter being reflected in the reduction of the customs rates, from presently 73 to only nine rates.

The new tax legislation, which entered into force in early 1994, aims at reducing the maximum tax rate for companies and individuals to 10 per cent from the 29 per cent. Further, the tax on company dividends will be cut to 5 per cent from 10 per cent.

As concerns the planned reduction in the overall public service payroll, a new law which was passed by the Parliament in late 1993, will allow the Government to make any public service employee redundant after the expiry of a sixty day period, during which an offer will be made to the employee for early retirement. The Government's objective until the year 2000 is to reduce the number of public service employees by 25000, i.e., to abandon the system of big government. The Government currently employs around 33,000 civil servants, 29,000 teachers and 50,000 in the various defence and security agencies.

The Lebanese banking system showed significant signs of recovery in 1993 from the effects of the civil war. Total assets of the commercial banks in the period January-November 1993 increased from LL 14,634 billion (\$7,962 million) to LL 18,184 billion (\$10,600 million), with the increase in terms of United States dollars partly reflecting improvement in the exchange rate of the Lebanese pound, from \$1 = LL 1,838 in January 1993 to \$1 = LL 1,715 in November 1993.

The improvement in economic activity in Lebanon in 1993 was reflected in an overall expansion in the activities of the banking system, with commercial bank lending to the private sector increasing from LL5135 billion in 1992 to LL6293 billion during the first eleven months of 1993, and deposits of the sector with the banks

jumping from LL 10,968 billion in 1992 to LL 14,364 billion over the same period. However, the share of foreign currency in commercial bank lending to the private sector and in its deposits, has also increased, namely from 90 and 68 per cent in 1992 to 92 and 70 between January and November 1993.

The expansion in activities of the Lebanese banks did not remain limited to the domestic market. Net foreign assets of the banks increased from \$2,219 million at the end of 1992 to \$3,124 million by November 1993. Actually, the success of the Lebanese banks in managing and underwriting the issue of SOLIDERE, the company that will develop Beirut's commercial district, totalling \$926 million, indicates the increased capability of these banks in carrying out commercial operations on an international scale.

In early 1994 (February), bank prime lending rate was cut from 26 per cent to 22 per cent, reflecting increased confidence in the economic recovery of Lebanon. The rate was cut from 60 per cent to 27 per cent in October 1992 and to 26 per cent in February 1993. The cut in early 1994 is expected to boost dealing in the Lebanese pound and reduce the dollarization of the economy. Interest rates on bank deposits are currently 8 per cent for demand savings accounts, 16 per cent for fixed savings accounts and 17 per cent for fixed savings accounts from six months to one year.

Syrian Arab Republic

The 1994 balanced budget of the Syrian Arab Republic foresees a 17 per cent increase in expenditures on 1993 (table 6). The increase is close to the domestic rate of inflation, estimated at 15 per cent in 1993. The increase in expenditures reflects the confidence of the Government in its ability to mobilize the resources needed to cover expenditures. Indeed, tax revenues in 1994 are set to increase by around 61 per cent (LS 17,911 million) compared to 1993, to around 33 per cent of total revenues, compared with 24 per cent in 1993. Furthermore, exceptional financing through external and domestic borrowing is budgeted at LS 37,000 million, up by around 9 per cent on 1993 and constituting around 6.6 fold its level in 1992, when exceptional financing was practically limited to external sources, amounting to LS 5,607 million (\$467 million).

The published 1994 budget of the Syrian Arab Republic does not show grants and concessional loans, which together with exceptional financing usually reflect the financing gap (i.e., the budget deficit). However, with grants and concessional loans expected to remain at almost the same level as in 1993 (LS 9,000 million), the financing gap in fiscal 1994 could amount to LS 46 billion (\$3.8 billion), or 32 per cent of the budget, representing an improvement of around 3 per cent over 1993.

The substantial receipts from these sources, in addition to the anticipated tax receipts, explain the significant budgetary growth in fiscal 1993 and 1994. Furthermore, the substantial budgeted increase in domestic borrowing in both fiscal years as compared with fiscal 1992,

with its zero-domestic borrowing, reflects a logical development, not only from a budgetary perspective, but because significant amounts of private sector funds have been repatriated to the country, following the issuance of Investment Law No. 10 in 1991, which offers attractive incentives and non-commercial risk guarantees. However, the funds are seen as being the underlying reason behind the relatively high rates of inflation in the country. In the absence of a financial market that could channel funds to productive investment, government borrowing to cover the budget deficit has become essential to siphon off excess liquidity.

Table 6. Syrian Arab Republic : budget, 1989 - 1994
(Millions of Syrian pounds)

	1989	1990	1991	1992	1993	1994
	Estimates				Budget	
<u>Expenditures</u>	<u>57413</u>	<u>67497</u>	<u>84691</u>	<u>93042</u>	<u>123018</u>	<u>144000</u>
Government services	40399	48216	64121	63330	71827	..
of which :						
Defence and security	18212	23561	32677	27121	27869	..
National debt	4246	3788	7381	8237	9373	..
Education	4920	5669	5924	7594	8765	..
Agriculture, forests and fishery	6268	7067	7913	10193	12230	..
Industry	2659	4022	3719	6638	14138	..
Infrastructure	7342	6677	6668	8805	20768	..
Other expenditures	1605	1515	1418	1533	1850	..
<u>Revenues</u>	<u>57000</u>	<u>67494</u>	<u>84691</u>	<u>93042</u>	<u>123018</u>	<u>144000</u>
Taxes and duties	18125	22123	27720	29048	29489	47400
Services and property	2157	2666	3454	4858	5658	..
Miscellaneous revenues	18884	18464	26762	36816	35197	..
of which :						
grants and concessional loans	3342	2310	10304	13904	9000	..
Surplus on public sector enterprises	11081	13065	13078	16127	18504	..
Exceptional financing	6791	11176	13678	5834	34170	..
of which :						
External borrowing	2847	3277	4360	5607	22868	24500
Domestic borrowing	103	7709	9156	..	11026	12500

Source: For 1989-1992, Review of Developments and Trends in the Monetary and Financial Sectors in the ESCWA Region, (E/ESCWA/DPD/1993/8); for 1993, Middle East Economic Survey, 19 July 1993; for 1994, The Jordan Times (daily), 9 June 1994.

II. BANKING

Banks in the ESCWA region, like banks all over the world, continued facing pressure in 1993 to maintain the internationally accepted capital adequacy ratio of at least 8 per cent. Most banks have raised their capital to conform with the ratio, either through own resources (profit and reserves) or through placing equities in the market.

The position of ESCWA banks in the international financial markets has been affected, on the one hand, by difficulties arising from developments in the markets themselves and on the other, by the Gulf crisis and war. Apart from a limited number of banks with significant international links and activities, most ESCWA banks have reduced international engagement, focusing instead on their home markets.

Actually, the switch from international to domestic banking has been evident for some time. ESCWA banks, especially those in the GCC countries with long involvement in international lending (syndication) and commodity trade, were encouraged by governments, as early as 1988, to increase their participation in financing national development, following the drop in government financial resources available for development. This was meant to increase bank lending to the private sector and parastatal companies, and to purchase government debt instruments, such as development bonds and treasury bills and notes. Indeed, the combined share of private and public sector loans and government debt instruments in the consolidated balance sheet of ESCWA commercial banks is estimated to have increased from around 55 per cent in 1992 to 68 per cent in 1993.

However, the main impetus to focusing on the domestic market has been a change in perception and financial needs of ESCWA governments, which, on the one hand, wanted to strengthen the role of the private sector in economic development, and, on the other, turned to the banks to contribute to financing the budget deficit.

Banks in the ESCWA region continued in 1993 to suffer under the mounting burden of non-performing loans, most of which were contracted during the 1980s. These loans, estimated to be around \$25 billion at the end of 1993, constituted close to 35 per cent of total bank lending, 9 per cent of total bank assets and five times the combined profit of banks in the region.

Kuwait

Most Kuwaiti banks⁶ were able in 1993 to maintain their 1992 profit levels, despite having had to repay the interest-free funds deposited with them by the Central Bank of Kuwait (CBK) to overcome liquidity problems resulting from the Gulf crisis. All banks, except the National Bank of Kuwait, which is the biggest bank in the country, continued in 1993 to contend with continuing illiquidity in the interbank market and a lack of new lending

⁶ Excluding specialized banks (Real Estate Bank, Savings and Credit Bank, Industrial Bank, Kuwait Finance House (Islamic Bank)).

opportunities. Indeed, figures of the CBK show that domestic credit dropped markedly in 1993, compared with 1992, with claims on Government falling from KD 5,345 million (\$17,639 million) to KD 4,184 million (\$15,886 million), and claims on the private sector⁷ from KD 1,322 million (\$4,363 million) to KD 1,031 million (\$3,402 million) (table 7). Claims on Government comprise holdings of treasury bills, amounting to KD 1,481 million in 1993, up by 55 per cent on 1992 (KD 954 million), and of acquisition of bonds and debt purchase bonds, of KD 3,332 million, down by 24 per cent from 1992 (KD 4,392 million).⁸

Table 7 indicates that Kuwaiti banks have not fully recovered from the impact of the Gulf crisis. Total banks' equity (own funds)—which in 1992 amounted to KD 826 million, or KD 261 million below its level of KD 1,087.5 million at the end of the year preceding the Gulf crisis (1989)—increased marginally in 1993, by KD 10 million. While total assets of the banks were on the rise prior to the Gulf crisis, reaching KD 11,135 million at the end of July 1990, they dropped to KD 8,413 million in 1991, KD 8,358 million in 1992 and further to KD 7,839 million in 1993.

However, private sector deposits increased from KD 4,955 million in 1992 to KD 5,283 million in 1993, with time and savings deposits accounting for nearly 39 per cent. The increase in both private sector deposits with banks and claims of banks on the private sector indicates improvement in bank performance and rising confidence of the private sector in banks as deposit trustees and source of lending. Another positive development in the Kuwaiti banking market during 1993 was the significant cut in the discount rate by the CBK, from 7.5 per cent to 6.25 per cent. The cut is considered to have closed the gap between the cost of funds to the banks and the interest rate the banks receive on the Government's debt bonds which constitute a significant portion of the their assets. A further positive banking development in 1993 was the easing by the CBK of restrictions on interbank lending, in both local and foreign currency.

However, the most important development benefiting banks, and the economy as a whole, was the passing by the Kuwaiti National Assembly of the KD 5,869 million (\$20 billion) debt settlement programme, setting out terms under which debtors can discharge their liabilities, arising mainly from the Suk Al-Manakh crisis in 1982. The programme enables the Government to redeem the debt bonds issued to the banks in 1992 to improve their liquidity, allowing them to deploy funds at higher interest rates in the market. "The programme gives debtors two options : a write-off of parts of what they owe to the banks, followed by repayment of the balance within two years of the start of the option on 1 April 1994, or a repayment of the whole amount, interest free, over twelve years".⁹ The programme is expected to have a positive impact on banking activities in Kuwait, improving transparency in financial reporting (financial disclosure) of bank customers (individuals as well as

⁷ Including claims on specialized banks and financial institutions, constituting 43 percent of total claims in 1992, and 17 percent in 1993, as against credit facilities to the rest of the private sector (individuals and companies), which increased from 57 percent of the total in 1992 to 83 percent in 1993.

⁸ Central Bank of Kuwait, Monthly Monetary Review, December 1993.

⁹ Middle East Economic Survey, 6 September 1993.

companies), on the one hand, and increasing demand for credit as business confidence improves, on the other.

Table 7. Kuwait : consolidated balance sheet of commercial banks, ^{a/} 1988-1993
(Millions of Kuwaiti dinars)

	1988	1989	Jul. 1990	1991	1992	1993
<u>Assets</u>						
Cash	25.5	23.0	28.9	28.4	33.5	36.4
Balance with central bank	16.6	15.4	2.2	5.2	13.4	11.6
Claims on government	718.5	1,186.3	1,356.6	5,207.6	5,345.3	4,813.5
Foreign assets	2,476.4	2,839.0	2,823.5	1,747.5	1,341.9	1,463.5
Claims on private sector ^{b/}	5,659.2	5,471.8	5,537.5	1,127.1	1,321.9	1,030.7
Other assets	1,505.8	1,436.5	1,386.6	297.4	301.6	483.3
Total Assets	10,402.0	10,972.0	11,135.3	8,413.2	8,357.6	7,839.0
<u>Liabilities</u>						
Private sector deposits ^{c/}	4,755.0	4,958.8	5,140.0	4,4930.2	4,955.0	5,282.8
Government deposits	93.6	111.7	116.1	76.0	64.7	3.4
Foreign liabilities	1,261.9	1,479.6	1,538.4	351.3	561.9	509.5
Own funds (Equity)	1,049.5	1,087.5	1,087.5	786.1	826.1	836.4
Other liabilities	3,242.0	3,334.4	3,253.3	2,269.6	1,949.9	1,206.9
Total Liabilities	10,402.0	10,972.0	11,135.3	8,413.2	8,357.6	7,839.0

Source: Central Bank of Kuwait, Quarterly Statistical Bulletin, October-December, 1993; and Monthly Monetary Review, December 1993.

a/ Excluding specialized banks.

b/ Including claims on specialized banks and financial institutions.

c/ Consisting of demand deposits, time and savings deposits, private deposits in foreign currency, and Certificates of Deposits.

Note: Data include the outcome of purchased Kuwaiti debtors' debts against issuing debt purchase bonds from December 1991.

INSET 2*

BAHRAIN : The deposit protection scheme

The Bahrain Monetary Agency (Central Bank) introduced in late 1993 a deposit protection scheme to provide compensation for depositors in the event of a local commercial bank being put for liquidation. The scheme applies to all banks incorporated in Bahrain, including Islamic banks. In the event of a bank being liquidated, a depositor will be entitled to 75 per cent of the combined total of deposits or to BD 15,000 (\$39,788), whichever is less. The total amount of compensation paid out in a single calendar year may not exceed BD 25 million (\$66 million). However, amounts carried over from the preceding year and those available for the following year, could be added to the amount available in the current year.

The scheme does not apply to deposits from the following sources :

- The Bahraini Government or governmental agencies;
- Other banks;
- The parent, subsidiaries, associates or affiliates of the bank under liquidation;
- Directors and managers of the bank and shareholders of more than 5 per cent of the bank equity;
- Depositors of unascertained identity.

The scheme will be funded by the local banks. In case of a bank being put for liquidation, the other banks will contribute a pro rata to the size of their deposits. The scheme will be administered by a Deposit Protection Board, consisting of two representatives of the Bahrain Monetary Agency, four representatives of the banks, one representative of each the Ministry of Finance and National Economy and the Ministry of Justice and Islamic Affairs, a representative of the Bahrain Chamber of Commerce and the liquidator of the bank.

Source: Middle East Economic Survey, 6 December 1993.

Saudi Arabia

Assets of Saudi banks grew significantly in 1993, with most banks recording higher profits than in 1992 (table 8). Buoyed by an active private sector and profitable government development bonds, most banks performed exceptionally well during the last two years, with aggregate profits increasing by around 14 per cent in 1992 and 26 per cent in 1993, in spite of reduced availability of private sector's financial resources, caused by delays in government payments for contractors. Consequently, Saudi banks were paying higher wholesale deposit rates in 1993, leading to an increase in interbank interest rates to a level competitive with the yield on government development bonds.

However, liquidity of Saudi banks remained high in 1993, owing to the fact that the banks maintain substantial deposits abroad that could be repatriated to cover domestic banking needs. The drop in the share of deposits held with banks abroad in total assets from 44.4 per cent in 1990 to 22.8 per cent in 1992, and further to 20.7 per cent at the end of the third quarter in 1993,¹⁰ indicates that significant amounts of bank deposits abroad were repatriated during the last few years.

The expansion in the role of the private sector in economic activity in Saudi Arabia during the last two years resulted in a significant rise in private sector bank credit (loans), namely from SR 66,033 million (\$17,609 million) in 1992 to SR 76,717 million (\$20,458 million) in 1993. Table 8 shows that the increase in private sector credit was not matched by an increase in private sector deposits. The increase in loans to the private sector and the Government (through the Government's development bonds and treasury bills and notes) was covered by repatriating parts of bank foreign deposits.

The relatively low growth of private sector deposits with Saudi banks in 1993 is attributed to speculation against the Saudi riyal, which raised the possibility of a riyal depreciation and consequently reduced the flow of private sector (non-bank) funds into the country, and to the private sector switching portions of local currency deposits into foreign currency deposits.

The Saudi domestic deposit market experienced a number of changes during the second half of 1993, particularly in respect of the attitude of big depositors (major private sector companies and parastatal organizations) which started to give more attention to returns on their deposits. These so-called "warehouse depositors" in Saudi Arabia do not build strong relationships with any bank. They place their funds with the bank that gives the best offer. Recently, they started paying more attention to the maturity structure of their deposits. The aim is to ensure that the deposits fall due shortly before the bank publishes its quarterly financial report, thus giving them an additional leverage in negotiating prices, especially since it would be difficult for the bank to afford losing a big part of its deposits shortly before publishing its report. Consequently, Saudi banks started in early 1994 making greater use of foreign interbank lines based on their foreign currency deposits abroad, particularly since these lines are not subject to the reserve requirements of the Saudi Arabian Monetary Agency.

¹⁰ Middle East Economic Survey, 21 March 1994.

During the last two years, there has been a significant restructuring of the assets of Saudi banks. Deposits with banks abroad have fallen significantly, as mentioned above. The deposits have been redeployed partly to extend credit to the private sector, and partly in investments in securities, especially government development bonds and treasury bills and notes. Investment in securities amounted to close to one-third of the aggregate assets of the banks indicated in Table 8, except the Al-Rajhi Banking and Investment Corporation, which, being an Islamic organization, does not deal with securities.

Table 8. Saudi Arabia : bank results, 1992-1993
(Millions of Saudi riyals)

	Year	Equity	Assets	Customs deposits	Loans	Net profit
Riyadh Bank	1993	6916	52355	26849	17025	922
	1992	6316	50022	27654	14790	746
Saudi American Bank	1993	3243	39786	28155	13097	942
	1992	2448	38278	27395	11601	910
Arab National Bank	1993	2405	32408	16774	11428	495
	1992	2246	28649	17143	10354	385
Al-Rabbi Banking and Investment Corporation	1993	3807	28600	20920	..	802
	1992	3531	26526	18431	..	645
Saudi British Bank	1993	2500	22768	15871	8098	403
	1992	1272	20704	14205	6909	268
Saudi French Bank	1993	2434	25469	16184	10828	337
	1992	2330	22961	16572	9457	200
Saudi Cairo Bank	1993	4589	15553	10711	6395	214
	1992	1500	13443	9801	5024	134
Saudi Hollandi Bank	1993	1173	15101	8439	5471	180
	1992	997	13523	8481	4698	134
United Saudi Commercial Bank	1993	1086	10439	6164	4375	265
	1992	822	9209	5307	3200	209
Total	1993	22412	248669	150067	76717	4620
	1992	18867	228571	144989	66033	3672

Source: Euromoney Magazine, May 1994; The Banker Magazine, April 1994; and Middle East Economic Digest, 11 March 1994.

Exchange rate : \$1 = SR 3.75

Egypt

The Egyptian banking sector was affected less than other sectors by the economic problems Egypt faced in 1993. The banks have been the main beneficiary from the successful reform of the exchange and interest rate system. The drop in lending opportunities was offset by a surge in earnings from Government treasury bills and bonds, and, for a number of banks, from rendering advisory services concerning privatization.

With the foreign exchange reserves of the Central Bank of Egypt increasing steadily over the last few years, to more than \$16 billion at the end of the third quarter of 1993, the Central Bank has been able to float the exchange rate of the Egyptian pound, which since early 1993 has remained stable at around \$1 = £E 3.33. Both the convertability of the pound and the higher interest rate set on pound deposits, compared to the dollar interest rate and the domestic inflation rate, have contributed to a significant inflow of foreign currencies into the country, increasing their share in total commercial bank deposits by around 12 per cent to over 40 per cent during the first nine months of 1993. In addition, the high interest rate on pound deposits led depositors to convert part of their foreign currency deposits into pound deposits.

Total deposits in the Egyptian banking system were £E 118 billion (\$35 billion) at the end of 1993, with more than 60 per cent of deposits held in Egyptian pounds. The deposit level was around 17 per cent higher than in 1992 (table 9). However, with the interest rate starting to fall in early 1994, the increase in pound deposits is likely to slow down during the year.

Egypt was planning in 1993 the introduction of new rules and regulations for an efficient functioning and control of the banking system. The major issues considered were establishing files at the Central Bank concerning management profiles, organizational structures and performance records of banks incorporated or licensed in Egypt; regular reporting to the Central Bank on financial conditions and changes in management and organizational structure; increasing the paid-up capital of foreign banks to £E 50 million (\$15.15 million) as a precondition for licensing them to deal in local currency; increasing the capital of the Central Bank to £E 100 million (\$30.3 million); and limiting the Central Bank contribution to budget deficit financing to 10 per cent of average budget revenues during the three preceding years.

Table 9. Egypt: consolidated balance sheet of commercial banks, 1988-1993
(Millions of Egyptian pounds)

	1988	1989	1990	1991	1992	1993
Assets						
Cash	721	840	600	1,192	1,259	2,002
Securities & investments :	6,794	7,627	8,136	16,386	33,578	43,846
Treasury bills	..	..	..	3,086	11,628	21,050
Other government securities	5,944	6,071	6,197	11,168	19,442	19,315
Balances with banks in Egypt ^{a/}	12,678	14,960	17,699	26,919	26,230	26,753
Balances with banks abroad	10,159	12,755	16,108	24,303	29,887	25,559
Loans and discounts	23,673	27,001	33,952	43,436	40,424	49,618
Other assets	5,638	7,434	9,948	7,894	7,910	11,198
Total Assets	59,663	70,617	86,443	120,130	139,288	158,976
Liabilities						
Total deposits	41,087	48,871	59,629	81,648	99,152	117,618
Obligations to banks in Egypt	3,636	3,965	5,867	8,869	8,141	9,980
Obligations to banks abroad	4,306	4,895	6,108	8,296	6,812	2,932
Provisions	2,512	3,295	3,972	4,735	6,244	8,496
Long term loans	258	191	205	212	274	262
Other liabilities	6,453	7,616	8,371	10,877	12,799	13,329
Capital & reserves	1411	1784	2291	5493	5866	6359
Total Liabilities	59,663	70,617	86,443	120,130	139,288	158,976

Source: Central Bank of Egypt, Annual Report, 1992/93.

a/ Including balance with the Central Bank.

Jordan

Private sector deposits with commercial banks increased by 12 per cent to JD 3,518.5 million (\$5,277.8 million) in 1993, indicating a significant rise in public awareness and interest, an issue on which the banking sector has been working during the last few years by improving customer-related services and continued automation of banking transfers and operations.

Foreign assets dropped from the equivalent of JD 2,324.8 million in 1992 to JD 2,161.6 million in 1993. However, this was almost balanced by the drop in banks foreign liabilities from the equivalent of JD 1,596.5 million in 1992 to JD 1,417.9 million in 1993 (table 10).

To cope with internationally accepted capital/adequacy ratio of at least 8 per cent, the Central Bank of Jordan (CBJ) asked the commercial banks to raise their capital to a minimum of JD 10 millions (\$15 million). Most Jordanian banks have done so, but the capital/adequacy ratio of the banking sector as a whole was still below 8 per cent in 1993, namely 7.3 per cent.

Following the significant rise in commercial bank credit facilities to JD 2,576 million in 1993, up by around 18 per cent on 1992 (JD 2,185.3 million), the CBJ was seeking to exempt lending by commercial banks for industrial investment purposes from a ceiling of JD 400 million, imposed by the International Monetary Fund (IMF) on commercial bank credit within the economic structural adjustment programme.

The dollar-denominated certificates of deposits (CDs) with a maturity of one, two and three years and a face value of \$100,000, introduced by the CBJ in early 1993 to attract an inflow of foreign currencies into the country and create additional investment outlets for foreign currencies held in Jordan, are considered to have been successful. Figures of the CBJ¹¹ indicate that the value of CDs sold in 1993 amounted to around \$345 million. The CDs are considered part of the obligatory 35 per cent foreign currency reserves of commercial banks with the CBJ.

In late 1993, the CBJ continued easing controls on the transfer of foreign currency for personal need and re-export credits. The move is seen as a further step in the direction of liberalizing foreign currency transfers and consolidating confidence in the Jordanian dinar which has been stabilized at around \$1 = JD 0.69-0.70 since over three years. The ceiling for the transfer has been raised from JD 20,000 (\$28,400) to JD 35,000 (\$49,710). Other measures in this context included abolishing guarantees on re-export, controls on non-resident foreign currency accounts and allowing loans in foreign currency for transshipment goods.

¹¹ Central Bank of Jordan, Monthly Statistical Bulletin, February 1994.

Table 10. Jordan: consolidated balance sheet of commercial banks^{a/}, 1989-1993
(Millions of Jordanian Dinars)

	1989	1990	1991	1992	1993
<u>Assets</u>					
Cash & balances with central bank	256.4	216.6	629.3	737.3	816.2
Balances with local banks	258.6	227.2	166.4	137.8	115.1
Foreign assets (including claims on private sector non-resident)	832.3	1,045.7	2,007.0	2,324.8	2,161.6
Bonds	198.2	191.1	189.1	155.9	179.6
Treasury bills	170.8	197.7	235.0	234.0	171.9
Credit facilities	1,703.5	1,824.1	1,945.5	2,185.3	2,576.0
Domestic investments	52.2	71.1	76.7	90.8	136.2
Other assets	308.3	316.5	350.1	445.2	595.6
Total assets	3,780.3	4,090.0	5,599.1	6,311.1	6,752.2
<u>Liabilities</u>					
Demand deposits	425.4	413.8	583.9	685.8	780.0
Savings & time deposits	1,638.5	1,673.0	2,079.9	2,448.8	2,738.5
Foreign liabilities	504.9	459.8	1,260.4	1,596.5	1,417.9
Government deposits	161.1	168.8	212.4	91.5	112.4
Local banks deposits	172.5	178.4	155.8	115.3	80.7
Borrowing from :	221.2	449.2	408.7	423.1	414.3
Central Bank	213.1	441.9	401.1	423.1	413.6
Banks & financial institutions	8.1	7.3	7.6	0.0	0.7
Capital, reserves & provisions	280.8	312.4	348.6	348.5	492.0
Other liabilities	375.9	434.6	549.4	601.6	716.4
Total liabilities	3,780.3	4,090.0	5,599.1	6,311.1	6,752.2

Source: Central Bank of Jordan, Monthly Statistical Bulletin, January, 1994.

a/ Including investment banks and The Housing Bank, but excluding all other specialized banks.

III. STOCK MARKETS

Stock markets in the ESCWA region¹² are increasingly being recognized as a prerequisite for financial and economic development, especially in countries where the dominant role of the state in economic activity has been on the wane and privatization gaining ground. The opening-up of the economy to market forces in a number of ESCWA countries has given closely-held companies the opportunity to raise funds from non-traditional sources, thus paving the way for financial institutions to diversify their lending and investment portfolios.

ESCWA stock markets have experienced a surge in their activities during the past few years. The value of traded shares amounted to around \$7.623 billion in 1993, up by around 31 per cent from 1992 and 65 per cent from 1991; and their number rose to around 680 million, up by around 7 per cent and 19 per cent, respectively.

In spite of the surge in activities, ESCWA stock markets, with the exception of the Jordanian stock market (the Amman Financial Market),¹³ are still considered "pre-emerging" markets, especially in terms of the volume of foreign direct investment (FDI) they attract. Indeed, the share of ESCWA's stock markets in developed countries FDI in the stock markets of developing countries was very small in 1993, amounting to only \$800 million, or 1.4 per cent of the total (\$56 billion), with around \$560 million invested in the Egyptian stock market and \$70 million in the Amman Financial Market.

Two main reasons are suggested to explain this development. Instability in the region and thus higher investment risk, and an ambivalent attitude toward foreign investment. Failure to establish appropriate legal codes and organizational and institutional infrastructures for stock markets have been additional constraints.

By emerging market standards, ESCWA stock markets are considered small. While the ratio of shareholders' equity of quoted companies to gross domestic product (GDP) amounted to around 30 per cent in developing countries, and to over 65 per cent in developed countries, it was less than 7 per cent in the region in 1993. In terms of the ratio of stock market capitalization to GDP, the ratio for ESCWA stock markets was even lower, amounting to around 4 per cent, compared with 35 per cent for other developing countries and 95 per cent for developed countries.¹⁴

However, a number of ESCWA stock markets, especially in the GCC countries, have started opening-up to foreign investors and have initiated linkages with each other as well as with foreign stock markets. A recently established GCC Stock Markets Committee is

¹² These are the stock markets of Bahrain, Egypt, Jordan, Kuwait, Oman and Saudi Arabia.

¹³ Owing to the improved level of activity and standards at the Jordanian Stock Market, the International Finance Corporation of the World Bank has ranked it as an emerging one among 20 other markets in developing countries in 1993 (International Finance Corporation, Emerging Markets, February 1994).

¹⁴ ESCWA calculation based on : International Finance Corporation, Emerging markets, February 1994.

considering a plan to link GCC stock markets with each other through mutual listing of trading institutions, establishing joint investment funds, brokerage houses and settlement centres. The opening-up to foreign investors has been initiated by Egypt, Bahrain, Oman and Jordan, with financial institutions in these countries establishing joint funds with foreign investors to invest in the stock markets, and with regulations concerning entry of foreign investors to the markets being eased.

Common to all stock markets in ESCWA countries is the fact that the state is a significant shareholder in many of the largest quoted companies, thus limiting the number of shares that could actually be traded in the market. The dominance of the stock markets by a small number of large investors, and the limitation put on the owners of quoted companies not to take more than 10 to 15 per cent of the shares offered for trade, are additional constraints. Furthermore, the slow pace of privatization in some countries, as Egypt and Jordan, caused, among other things, by the difficulty in offering shares of loss-making public sector companies proposed for privatization, reduced liquidity of the stock markets in both countries, with only around 18 and 20 per cent of the shares of quoted companies on these stock markets being traded.

Following is a summary of stock market developments in a number of ESCWA countries.

Egypt

The number of listed companies on the Cairo Stock Exchange (CSE) was 630 at the end of 1993, with a market capitalization of slightly over \$2.5 billion. However, with only around 110 companies being quoted, the market capitalization drops to around \$1 billion. Although the number of traded shares on the CSE increased to around 40 million in 1993, up by around 25 per cent on 1992, the value of these shares remained almost the same, resulting in a lower price/earnings ratio (P/E),¹⁵ estimated to have been around 8 per cent, down by around 2 per cent from 1992. The reason behind this development is seen in the insufficient liquidity of the stock exchange, caused by the slow pace of privatization which resulted, among other things, partly from the difficulty to place shares (i.e., to quote companies) of loss-making public sector companies on the stock exchange, and partly from the stock exchange regulations concerning the entry of foreign investors. Indeed, 90 of the 314 public sector companies proposed for privatization, and thus for share offering to the public on the CSE, are considered loss-making companies, with a debt totalling around \$16 billion, compared to their aggregate capital of less than \$9 billion.¹⁶ Furthermore, despite the opening-up of Egypt to foreign investors, their investment on the CSE remained limited to a small number of companies.

¹⁵ P/E is defined as the ratio of estimated earnings from a company's share to the price paid for it. A high P/E ratio means that the market values company's earnings highly, either because they are expected to continue growing, or for other reasons, such as an expected takeover.

¹⁶ Middle East Economic Survey, 14 March 1994.

Another reason for the insufficient liquidity of the CSE is the high return on government treasury bills of around 15 per cent, attracting much of the investment funds at the expense of investment in shares on the stock exchange where the return is significantly lower.

The limitation put on foreign ownership in public sector companies proposed for privatization has been a major reason for the Egyptian Government to shift its preferred method of selling companies to public stock flotations, which are open to Egyptians only, and away from bidding, which makes the participation of foreign investors possible. Another important reason for moving to public stock flotations is that the tender process resulted in low prices of shares and thus in government receipts. The privatization process as a whole has been subject to considerable delays. Only a few of the public sector companies, considered for sale in the first phase of privatization, have in fact been sold. Part of the reason for this development is that many of these public sector companies are hotels and tourism ventures which have become less attractive to the private sector as a result of the unfavourable developments that beset the tourist industry.

Moreover, the CSE is seen as still lacking an appropriate legal framework, especially in terms of tax and corporate laws. The absence of a system of financial disclosure that meets international auditing standards is an additional shortcoming. The Egyptian Government, however, is planning to modernize the trading system at the CSE, and introduce new legislation to regulate activities. A new securities (i.e., financial instruments) law proposes that shares will be free of stamps duty and that dividends will be tax exempt. Furthermore, listed companies that raise over 50 per cent of their capital from the public will receive a corporate tax break. The intention of the proposed legislation is to encourage foreign investments on the CSE, in that repatriation of funds will be free, subject only to restrictions on the size of shareholding in strategic industries. The new legislation proposes also giving stocks and shares tax parity with bank deposits and treasury bills and notes.

Saudi Arabia

By the standards of the region, the Saudi Stock Market (SSM)¹⁷ is the largest in terms of market capitalization, amounting to around \$65 billion in 1993, compared with \$4.8 billion for the Jordanian stock market (the Amman Financial Market), the second largest in the region. The SSM has grown steadily since the early 1980s, with the number of listed companies increasing from 37 with an aggregate paid-up capital of around \$2.7 billion in 1980, to 78 in 1992 and 89 in 1993, with paid-up capital of \$17.5 billion and \$18.9 billion, respectively. However, of the listed companies in 1993, only 66 companies were quoted, half of which being services companies.

The SSM is characterized by a low level of trading in terms of the ratio of the value of traded shares to market capitalization. For example, in 1992, when the value of traded shares was highest (\$3.7 billion), the market capitalization ratio amounted to around 6 per cent only. The low level of the ratio is attributed partly to the structure of shares' ownership and partly to the market regulation. With the Saudi Government being a major shareholder (41 per cent

¹⁷ The Saudi Stock Market is still an informal market, having no trading floor.

of total equity of listed companies) that does not trade its holdings, and with share trading being confined to local banks that can only buy or sell on orders from their customers, the activity of the SSM remained limited to trading in private sector shares (around 55 per cent of total equity of listed companies) which only Saudi citizens can acquire. In reality, however, the ratio has been lower than 6 per cent, given the significant concentration of ownership of a major portion of private sector shares, thus leaving only part of the shares for trading, with many of them being traded more than once. In 1993, the ratio is estimated to have been around 5 per cent, compared with over 45 per cent in Jordan and 28 per cent in Egypt.

"The movement of share prices on the SSM has generally reflected economic conditions in Saudi Arabia. The share prices decreased by around 54 per cent between 1983 and 1986, following the drop in Government oil revenues and the subsequent decline in economic activity. Following the recovery in oil revenues during the period 1987-1989, share prices increased by around 59 per cent, more than offsetting the decrease during the previous period. The stock market activities slumped during the Gulf crises but were quick to recover thereafter".¹⁸ During the Gulf crisis, the stock market index dropped by 10 per cent, but rose steadily in 1991 and most of 1992, as a result of higher profits of quoted companies and repatriation of private sector funds from abroad (attracted by high domestic returns, compared with international interest rates), amounting to close to \$37 billion in 1991 and 13.8 billion in 1992.¹⁹ The stock market index was highest in early 1992 when it stood at 233.82, up by over 41 point on its level at end-1991.²⁰ However, the high flotation of new shares, especially by local banks to increase their capital to conform with the recommended capital adequacy ratio of at least 8 per cent required by the Bank for International Settlements, led to a fall in the stock market index to around 185 at the end of 1992. This was about 50 points below its level early in the year. Since then, the index has fluctuated narrowly around 180.

By international standards, the depth of the SSM, i.e. the ratio of the value of shares traded to total market value of shares outstanding, is not satisfactory. The ratio was less than 5 per cent during most of the 1980s, increasing to around 6 per cent in 1991 and 8 per cent in 1992. The ratio dropped to close to 7.8 per cent in 1993. The reason for the unsatisfactory depth of the SSM is attributed to the significant portion of shares held by the Government and the limited number of private sector investors, with most of the shares not being available for trading.

The Saudi Arabian Monetary Agency (SAMA) is the regulatory authority supervising the stock market. SAMA issued a decree in 1985 ruling that trading in shares can only be carried out by local banks. In 1985, SAMA also initiated the establishment of a Saudi Shares Registration Company to be owned by local banks. A new computerized trading system, the Electronic Securities Information System, replacing the hitherto used telephone and telex

¹⁸ The Saudi National Commercial Bank, The NCB Economist, volume 3, No. 7, October 1993.

¹⁹ Henry Azzam, Al-Hayat daily (Arabic), 21 May 1994.

²⁰ Middle East Economic Digest (MEED), 26 November 1993.

trading system in place, was established in 1990 to facilitate the transfer of share ownership through the Saudi Shares Registration Company.

Jordan

The Jordanian stock market (the Amman Financial Market (AFM)) has been considered as the most developed stock market in the region.²¹ The AFM lists 115 companies with a total market capitalization of around \$4.8 billion, almost equivalent to the Jordanian GDP in 1993.

During the second half of 1993, and the first few months of 1994, trading activity on the AFM slowed down, with only around 30 per cent of the shares outstanding being traded. However, the AFM recorded a significant rise in share issues in 1993, amounting to around \$320 million, up by around \$250 million on 1992, with \$130 million being shares of new companies. This took place despite the strict regulations by the Government-controlled Issuance Committee, which not only undertakes thorough research of applicants and prospects, but also sets the issue date and the premium to be allowed in the primary market. The formula of the Committee, which weighs book against market value is considered an instrument underpricing shares, hence an obstacle to companies trying to raise additional funds and make higher profits in the secondary market.

The relatively low ratio of shares traded to shares outstanding in the AFM is attributed, on the one hand, to the substantial Government's share portfolio, particularly in the tourism, minerals and industrial sectors, of which a significant portion is not offered for trading, and, on the other, to the AFM regulations that forbid company owners from taking up more than 10 per cent of the new shares offered by their companies, thus discouraging many of them, who are reluctant to dilute their shareholdings, from issuing new shares.

The encouraging development of the AFM during the last few years, as reflected in the improved level of activities and dealing standards, increased the interest of foreign investors in the market, bringing foreign ownership to around 15 per cent of total equities of quoted companies. The Jordanian Government is planning to gradually deregulate the market to attract additional foreign investments. The planned privatization of a number of public sector companies, including the national carrier (the Royal Jordanian Airline), the Telecommunication Corporation and the cement and phosphate companies is expected to improve the liquidity of the AFM, and, consequently, expand its activity.

Following revision of the Foreign Investment Law in October 1993, emerging market funds, in addition to major international financial institutions, were permitted to invest in the AFM, i.e., to buy shares of quoted companies. Actually, the surge in activities in the AFM during the last few years was a major factor in the increased interest of foreign investors in the market. After a drop in the trade volume of around 14 per cent in 1990 in the wake of the Gulf crisis, the market picked up, surging by around 24 per cent in 1992, and 23 per cent in 1993. The share prices in the AFM are a reflection of the economic conditions of the

²¹ See footnote No. 14 on p. 28.

country. The GDP increase by around 11 per cent in 1992 and 6 per cent in 1993 was reflected in a rise in the P/E ratio to around 22 per cent in 1993, up by around 7.4 per cent on 1992 and 11.1 per cent on 1991.

Kuwait

The Kuwaiti Stock Market (KSM) which was the most developed in the ESCWA region before the Gulf crisis, with a market capitalization of over \$10 billion, re-opened in September 1992. The number of companies listed in the market reached 42 at the end of the third quarter 1993, compared with 52 before the Gulf crisis. The value of shares traded in the fourth quarter of 1992 amounted to KD 115 million (\$380 million), down by 38 per cent from the corresponding level in the year preceding the Gulf crisis. However, the KSM witnessed a marked activity during the first three quarters of 1993, with the value of shares traded in the third quarter amounting to around KD 318 million (\$1,050 million), up by around 117 per cent on the preceding quarter and 180 per cent on the last quarter of 1992. The volume of trading in shares also increased markedly during the same period with the number of shares traded reaching 1271 million during the 3rd quarter of 1993, up from 562 million in the preceding quarter and 297 million in the fourth quarter of 1992.

Actually, the rise in the activities of the KSM was more pronounced in the number of the so-called settled trade transactions (STT).²² These numbered 13000 in the second quarter of 1993, and were more than double the corresponding level before the Gulf crisis; their number increased further to 24000 in the third quarter.

The return of KSM activities to normalcy is attributed, on the one hand, to the improvement in the financial position of quoted companies, and on the other, to the positive reaction of the market to the state purchase of certain debts of the private sector and the soft methods followed in their collection.

²² These are transactions finalized through the clearing window (office) of the Kuwaiti Stock Market.

IV. EXTERNAL DEBT

The external debt of the ESCWA region is estimated to have risen from \$180 billion in 1992 to \$186 billion in 1993, representing close to 50 per cent of the region's GDP. Compared with other developing countries, the ESCWA region is considered to be heavily indebted, in terms of both GDP and exports of goods and services. While the aggregate GDP of the region and its exports of goods and services constituted in 1993 around 5.6 per cent and 6.2 per cent of total GDP and export of goods and services of the developing countries, respectively, its external debt constituted around 11.5 per cent of that of developing countries.

The region as a whole faced fewer external debt-related problems in 1993. Egypt benefited from the debt reduction schemes of the Paris Club following agreement with the IMF whereby a second tranche of 15 per cent of the debt owed to the group was forgiven. Jordan also signed in late 1993 a Brady-style agreement with commercial banks for a debt and debt service payments reduction, involving par and discount bonds and a limited debt buy-back option. The improving economic conditions in Lebanon have encouraged the Government to consider issuing its first Eurobond of \$300 billion. However, political uncertainty in the Republic of Yemen has cast doubt on the country's ability to obtain new external debt facilities.

Despite the forgiveness and rescheduling of a significant part of the external debt of Egypt, and to a lesser extent that of Jordan and the Republic of Yemen, the increase in ESCWA external debt during the last two years is attributed to the rise in the GCC countries' debt, which in 1993 constituted around 60 per cent of the region's total external debt and was mostly commercial and medium-term (around 70 per cent). Prior to 1986, the external debt of the GCC countries, especially that of Saudi Arabia and Kuwait, was barely noticeable in the international lending markets, owing to the substantial foreign reserves accumulated. However, reduced foreign reserves and the need to finance budget deficits forced the GCC to resort to external borrowing, either direct by the Government or through public sector agencies (sovereign risk). The drop in oil prices and revenues augmented the pressure on financial resources that the Gulf crisis and war triggered, obliging especially Saudi Arabia and Kuwait to finance public investments, reconstruction and rehabilitation, and balance of payments deficits through external borrowing.

Egypt

Macro-economic imbalances caused Egypt's external debt to grow to unsustainable levels during the 1980s. By 1986, total external debt was around 120 per cent of GDP, with a debt service ratio reaching 35 per cent. While the Paris Club debt-rescheduling scheme in 1987 provided temporary relief, it did not fundamentally improve the situation, since debt continued increasing during the next two years. By the end of the first half of 1990, shortly before the eruption of the Gulf crisis, Egypt's external debt was estimated at around \$54 billion, or around 150 per cent of GDP, with debt service obligations amounting to around half the country's foreign exchange earnings. Less than half these obligations have been settled during that period, resulting in a rise in debt arrears to around \$11 billion. Public and publicly-guaranteed debt was estimated at about 70 per cent of total external debt.

Egypt benefitted from rescheduling and forgiveness of substantial parts of its external debt; debt outstanding dropped to around \$44.4 billion in 1990 and further to \$42.4 billion dollar in 1991 (table 11). Egypt's external debt has been estimated at \$40.4 billion in 1992 and \$38.4 billion at the end of 1993, with a debt service ratio of around 18 per cent, roughly half the ratio of the late 1980s.

Egypt's achievements in implementing the economic reform and structural adjustment programme, particularly in the monetary and fiscal fields,²³ and the drop in its external debt (i.e., the improvement in Egypt's credit worthiness) resulted in parts (around \$150 million) of the external debt being traded in the secondary markets in late 1993. In fact, under the terms of the debt-reduction and rescheduling agreement between Egypt and the Paris Club in 1991,²⁴ up to 10 per cent of Egypt's restructured debt could be sold through debt-equity swaps (i.e., selling debt in the secondary markets).

Egypt's long-term debt constituted around 72 per cent of its total external debt in 1990, increasing to around 87 per cent in 1993. The volume of the long-term debt dropped from \$36.4 billion in 1992 to \$33.5 billion in 1993, whereas the short-term debt rose from \$3.8 billion to \$4.9 billion,²⁵ mostly for financing imports. Debt service payments in 1993 (\$2.8 billion) were up by around 11 per cent on 1992 (\$2.5 billion), with payments for principal amounting to around \$1.5 billion and for interest \$1.3 billion. The increase in payments for interest, namely from \$1,041 million in 1992 to around \$1,300 million in 1993, is attributed to the significant rise in the short-term debt, with relatively high interest rates.

Jordan

The external debt of Jordan is estimated to have been around 118 per cent of GDP in 1993, down from 150 per cent in 1992 and 220 per cent in 1991. The improvement in the external debt/GDP ratio reflects the significant GDP growth rates achieved in 1992 and 1993 (11 per cent and 6 per cent, respectively), and the exclusion of undisbursed debt from published debt figures (table 12).

²³ For further details on Egypt's economic structural adjustment programme, see : Review of Developments and Trends in the Monetary and Financial Sectors in the ESCWA Region, 1991, (E/ESCWA/DPD/1992/6).

²⁴ The agreement provides for a three-stage write-off of the \$20.2 billion debt owed by Egypt to members of the Paris Club. However, the write-offs have been made conditional on Egypt's implementing the recommendations set in the agreement with the IMF in May 1991. One of the recommendations has been the privatization of Egypt's public sector enterprises. The delay in implementing the privatization programme has been used by the Paris Club as an excuse not to implement in full the proposed three-stage write-off of Egypt's debt.

²⁵ Mostly bank loans, defined as short-term unguaranteed bank loans of a maturity of one year or less, and bridging loans (i.e., interim financing).

Table 11. Egypt : external debt, 1988-1993
(Millions of United States dollars)

	1988	1989	1990	1991	1992	1993
<u>Total external debt</u>	<u>51079</u>	<u>50003</u>	<u>44446</u>	<u>42447</u>	<u>40431</u>	<u>38400</u>
Long-term debt	41204	38644	31854	29835	36425	33500
Short-term debt	8525	9702	11164	12612	3803	4900
Other identified debt	1980	1656	1427	..	..	..
<u>Debt service payments</u>	<u>4345</u>	<u>4631</u>	<u>3932</u>	<u>2415</u>	<u>2524</u>	<u>2800</u>
Principal	2495	1780	1926	1410	1427	1500
Interest	1850	1583	1428	871	1041	1300
Long-term debt	1478	1283	1127	651	873	1000
Short-term debt	372	300	301	220	168	300
<u>Debt service ratio</u>	<u>37.5</u>	<u>39.1</u>	<u>30.7</u>	<u>16.7</u>	<u>17.0</u>	<u>18.0</u>

Source: For 1988-1991, Review of Developments and Trends in the Monetary and Financial Sectors in the ESCWA Region, 1992, (E/ESCWA/DPD/1993/8); for 1992, World Bank, World Debt Tables, 1992-1993; for 1993, ESCWA calculations based on various sources.

Despite an increase of around 2 per cent in disbursed debt in 1993 over 1992, Jordan's overall external debt position improved markedly in 1993, owing mainly to the rescheduling of parts of the debt, especially commercial debt, the servicing of which was suspended in 1991,²⁶ causing delay in concluding negotiations with the London Club. Hence, the drop in servicing the short-term debt from \$247 in 1990 to only \$10 million in 1993 was actually the result of the suspension rather than a drop in the short-term debt itself, which increased from \$1,932 million in 1988 to \$2,462 million in 1991.

Long-term debt continued in 1993 to constitute around two-thirds of Jordan's total external debt, with about 55 per cent being concessional and mostly bilateral. Actually, the rise in the share of concessional debt in long-term debt in 1993 by around 10 per cent resulted from the rescheduling scheme agreed upon with the Paris Club for bilateral and multilateral debt in 1992. The scheme included the extension of debt repayments over periods of 10 and 30 years, with grace periods of between 5 and 10 years and interest rates of between 1 and 3 per cent.

The negotiations with the London Club concerning the rescheduling of Jordan's commercial debt were concluded in late 1993 with a Brady-Style agreement for a debt and debt service payments reductions, with terms involving par and discount bonds and a limited debt buy-back option.

²⁶ An earlier suspension of servicing commercial debt occurred in early 1989, following the deterioration in the foreign exchange position of Jordan in 1988.

Table 12. Jordan: external debt, 1988-1993
(Millions of United States dollars)

	1988	1989	1990	1991	1992	1993
<u>Total external debt</u>	<u>7457</u>	<u>7441</u>	<u>^{a/}8371</u>	<u>^{a/}9054</u>	<u>^{b/}7805</u>	<u>^{b/}7986</u>
Long-term debt	4657	5556	6474	6592	4803	4913
Short-term debt	1932	1267	1316	2462	..	..
Other identified debt	886	618	582	..	..	..
<u>Debt service payments</u>	<u>983</u>	<u>766</u>	<u>788</u>	<u>638</u>	<u>600</u>	<u>615</u>
Principal	642	291	235	311	388	400
Interest	341	475	553	327	212	215
1. Long-term debt	314	244	306	277	179	205
2. Short-term debt	27	231	247	50	33	10
<u>Debt service ratio</u>	<u>29.2</u>	<u>25.4</u>	<u>25.6</u>	<u>20.9</u>	<u>26.9</u>	<u>25.2</u>

Source: For 1988-1991, Review of Developments and Trends in the Monetary and Financial Sectors in the ESCWA Region, (E/ESCWA/DPD/1993/8); for 1992, World Bank, World Debt Table, 1992-1993; for 1993, ESCWA calculations based on various sources.

a/ Contracted debt (disbursed and undisbursed debt).

b/ Excluding undisbursed debt.

V. PRIVATIZATION

Privatization in the ESCWA region has been emerging slowly but steadily. As in 1992, privatization steps in 1993 were pursued either in the context of economic reform and structural adjustment packages agreed upon with the IMF and the World Bank, or as a consequence of changed attitudes and perceptions and economic and financial necessities. In some countries, privatization is considered as an important opportunity for the development of financial markets.

Budget deficits in a number of ESCWA countries have been attributed to the government's ownership of loss-making companies, entailing significant subsidies and borrowing. Selling the government's equity in these companies is seen as a way of reducing the budget deficit. Furthermore, most governments in the region no longer have the funds required for financing major industrial and non-industrial projects. The involvement of private sector capital is considered essential for the implementation of such projects.

Following is a summary of efforts undertaken in the area of privatization in a number of ESCWA countries.

Egypt

The issue of foreign ownership in the economy has been an important factor behind the shift in the Egyptian Government method of transferring ownership of public sector companies to the private sector from tenders to public stock flotations, which are open to Egyptian citizens only. Another reason for moving to public flotations has been the low prices and thus low revenues achieved through tenders.

The privatization process has met considerable delays, with only a few public sector companies, mostly hotels and tourism companies, privatized. The main reasons for the delay are to be found in the fact that most of the companies considered for privatization are loss-making companies, thus unattractive to investors.²⁷ Also, the unemployment that could result from privatization is contrary to the policy of the Government which accords priority to the creation of jobs.

The Egyptian Government has been considering privatization of around 314 public sector companies through floating a minimum of 10 per cent of the shares of 119 companies, and making available another 10 per cent for ownership by employees at 20 per cent discount. The Government intends to use the revenues from this partial sale to reform the finances of other public sector companies so as to make them attractive for privatization. However, given the relatively small percentage of shares being considered for sale, the resulting revenues may turn out to be insufficient to turn loss-making companies into profit-making ones, taking into consideration the magnitude of their losses.

²⁷ The estimated debt of these companies is \$16 billion, or more than twice their capital of \$6.5 billion (Middle East Monitor), April 1994.

The privatization of public sector bank holdings (in other banks) was planned to start in early 1994 by selling a 40 per cent tranche of the holdings. Under the privatization schedule agreed upon with the IMF within the framework of Egypt's economic structural adjustment programme, 11 joint-venture banks with major public sector holdings, and 23 private sector banks with minor public sector holdings, have been considered for privatization by the end of June 1995. Targets have been set for every six months for a certain percentage of public sector bank holdings to be floated. Effective 1 January 1994, public sector companies in Egypt are subjected to the same market rules and obligations as private sector companies. Consequently, access of public sector companies to the lending market will be based on their credit-worthiness. The Government role in these companies will be that of a major shareholder in a large private company and managers are expected to have full financial, commercial and managerial freedom, including the authority to divest or restructure assets and activities. Liquidation of non-viable companies will be permitted and privatization encouraged.

In late 1991, a Public Enterprise Office was created to take charge of the privatization process. Under the Public Company Law of 1991, the Public Enterprise Office grouped the 314 companies being considered for privatization into 17 holding companies with diversified portfolios to prevent monopoly power.

Oman

Oman considers private sector growth as a key element in its economic development strategy which has been linked to the privatization of activities in a number of sectors. Oman's privatization programme in 1993 included the issuance of shares in the Omani Cement Company to be held by the private sector. The Government's 32 per cent stake in the local company "Gulf Hotels—Oman" was sold to the private sector in 1993, with other hotels and tourism ventures with government's shareholding being assessed pending privatization. Furthermore, the Government's 20 per cent holding in the National Bank of Oman, bought by the Ministry of Finance and Economy as part of the bank's capitalization following the collapse of the Bank of Credit and Commerce International (BCCI) which was the bank's manager and major shareholder with 40 per cent, was offered to the public in late 1993 and early 1994. To widen ownership among the Omani people, the Government stake was floated on the Omani Stock Exchange at a price of only RO 1.1 per share.

Oman has also been planning other privatization moves, including parts of the health sector, with the Government intending to temporarily subsidize private sector health projects, and to sell the Government share in port services to the private sector. Government support to private sector activities is reflected in the Omani budget for 1994, with allocations of around \$39 million through Omani development organizations such as Oman Development Bank, Housing Bank and Agriculture and Fisheries Bank. The 1994 budget foresees revenues of around \$40 million from the sale of Government interests in the economy.

Syrian Arab Republic²⁸

Law No. 10 of 1991 is considered to have set in motion an economic reform process in the Syrian Arab Republic. The basic objective of the law is to encourage the private sector to play a significant role in economic activity and also to attract Arab as well as non-Arab investment to the Syrian Arab Republic.

The private sector in the Syrian Arab Republic has been emerging as a dynamic force in economic activity in recent years, owing to the support and incentives offered by the Government, as part of its efforts to accelerate economic development. The incentives have been established in the above-mentioned Law and in Law No. 20, with the latter providing tax, duties and customs-related support. The impact of these laws on private sector investment has been positive, as reflected in the significant number (952) of licensed projects, totalling around LS 152 billion, and in the increase in the share of the private sector in the country's import business, from around 21 per cent in 1990 to 61 per cent in 1993. The share of foreign investment in private sector licensed companies has been estimated at around 71 per cent, most of which coming from the GCC countries (81 per cent).²⁹

Representative of the expanding private sector activities in the Syrian Arab Republic is the establishment of the Syrian Energy Company in late 1993, with minor Government shareholding of 25 per cent. The company plans to sell electricity to the Government and co-operate with foreign companies for this purpose.

²⁸ For further details on privatization in the Syrian Arab Republic, see : Review of Developments and Trends in the Monetary and Financial Sectors in the ESCWA Region, 1991, (E/ESCWA/DPD/1992/8).

²⁹ MEMO, January 28, 1994.

INSET 3*

KUWAIT : the counter trade offset programme1. Establishment and objectives

The offset programme in Kuwait—under which contractors are required to invest 30 per cent of the value of government contracts exceeding KD 1 million in approved projects in Kuwait—was established by Council of Ministers Decision No. 694 of 26 July, 1992. The objectives of the programme are:

- To achieve sustainable economic benefits;
- To provide new investment opportunities inside Kuwait in collaboration with the local private sector;
- To help in the transfer of technology to the Kuwaiti private sector;
- To create educational and training opportunities for Kuwaiti nationals at all levels in the fields of finance, industry, education and research and development;
- To help in marketing local produce abroad; and
- To encourage participation in the foreign aid programme of Kuwait.

Unlike the offset programmes in Saudi Arabia and the United Arab Emirates, which are restricted to defence-related contracts, the Kuwaiti programme applies to defence as well as civilian contracts, though the concentration so far has mainly been on defence contracts.

The programme stresses the importance of encouraging the Kuwaiti private sector to study projects that will be implemented by foreign companies under the programme, and to participate in the realization of projects considered suitable.

A special unit, the Offset Programme Executive Office, has been set up at the Ministry of Finance and a procedural manual, designed to provide comprehensive details on the rules and regulations of the programme, is under preparation and expected to be published in July, 1994.

* Source: National Bank of Kuwait, Economic and Financial Quarterly, I/1994

a) Main guidelines

- Each foreign contractor shall make an investment commitment under the programme equal to 30 per cent of the contract value for all government contracts exceeding KD 1 million, for a single contract or cumulatively within one fiscal year. The offset obligation shall be completed within eight years starting with the effective date of the contract.
- The investment shall be absorbable, solidly based and profitable for all parties involved. A planned investment schedule shall be an integral part of the offset obligation in order to ensure that it will be fulfilled on time.
- Preference is given to production and manufacturing projects that maximize the transfer of technology and have a good export potential. Transfer of technology should include training local staff and the capitalization of certain technical skills and knowledge as equity, license arrangements or the assignment of technical experts to the project. It is important that the technology transferred be updated throughout the life of the agreement.
- The projects could take the form of joint-ventures, established in Kuwait or overseas. In the case of joint ventures in Kuwait, shareholdings shall be 51 per cent for the local partner and 49 per cent for the foreign partner, in accordance with Kuwaiti Law. A review of this requirement will be reserved for exceptional circumstances. The government of Kuwait shall not underwrite any joint-venture financially, commercially or otherwise unless it chooses to do so for strategic or other reasons. Joint-venture partners may be required to offer part of their shareholdings for public subscription, in accordance with Kuwait's commercial law and regulations. However, the foreign partner/contractor may not reduce his shareholding in the joint-venture until his offset investment obligation is completed.

2. Main principles and guidelines

- In the event that a contractor establishes an overseas joint-venture to carry out his offset obligation, the ownership and capital structure of the joint-venture shall be at the discretion of the parties involved and in accordance with the applicable laws of the host country, but subject also to the approval of the Ministry of Finance Offset Programme Executive Office.

b) Submission of proposals

- For contracts with a value of KD 1 to 5 million, a contractor can make a financial contribution to the Kuwait Counter Trade Offset Development Fund which will be established to channel investment obligations from smaller contracts to various project. The amount of the contribution shall not be less than 30 per cent of the value of such contracts, but will remain subject to negotiations between the Ministry of Finance Offset Programme Executive Office and the contractor. The negotiations shall take into account the value of technology, expertise and training offered by the contractor (see below).
- For contracts with a value exceeding KD 5 million, the regulations call for the contractor to submit with the tender documents an investment project proposal covering at least 50 per cent of the offset obligation to start with. A copy of the proposal must also be sent to the Ministry of Finance Programme Offset Programme Executive Office. The project proposal must include a description of the investment project, highlighting its advantages for Kuwait and its relevant linkages to existing industries, an identification of potential markets, type of technology being involved, time plan for the project implementation, and a financial plan estimating total capital cost, sources of financing and projected cash flows.
- Three months after the effective date of the contract, a contractor shall submit to the Ministry of Finance Offset Programme Executive Office a proposal concerning suitable local investment partners, or else request assistance from the Office in locating such partners.
- Within one year after the effective date of the contract, a contractor shall submit for approval investment project packages covering at least half his commitment. A package covering the remaining balance must be submitted within the following year. The packages shall include a feasibility study of the project(s), shareholders agreement, articles of association, technology transfer approval from his government, where necessary, business projections for the first three years of operation and information on the sources of funds and debt.

c) Evaluation of proposals

Evaluation by the Ministry of Fiance Offset Programme Executive Office of packages submitted shall be based on the extent to which the packages meet the spirit and provisions of the offset programme. Particular attention shall be given to :

- the commitment of the contractor demonstrated by the overall quality of the investment project proposals, and the likelihood of success.
- the profitability prospects of the investment packages.
- the changes expected in the technology to be transferred and means to avoid obsolescence.

This evaluation method shall be applied to all submissions. It shall not preclude other approval processes adopted by other government agencies.

d) Monitoring, liaison and follow up

The Offset Programme Executive Office directs the operations of all parties involved in the evaluation, approval and monitoring of contractors participating in the offset programme. In this respect, the Office :

- evaluates and approves all investment project proposals and packages;
- monitors progress and compliance with rules and regulations;
- approves offset credits, earned by the contractor;
- undertakes the day to day management of the programme;
- works to stimulate local and foreign investment in the programme;
- analyses the progress of the newly created businesses under the programme;
- liaises between contractors, government agencies and the private sector;
- makes periodic reports on the progress of individual projects, levies penalties if need be, and reports on the whole offset programme; and
- audits financial statements and annual reports for each joint-venture.

e) Offset incentives

An offset incentive structure has been devised to provide incentives to contractors to expedite the implementation of approved investment packages. The structure reflects the government's priorities both at the micro (investment) level and the macro (sector) level. The incentive system works by calculating the value of investments carried out in any one period which is in excess of the total commitment for that period, and then applying to it a system of multipliers that correspond to the project undertaken and reflect government preferences in terms of the type of project and the sector in which it is undertaken. The resultant total value is called the total offset incentives earned and may be used by the contractor to reduce offset obligations that may arise under other contracts.

f) Penalties

The penalties levied on a contractor for non-fulfillment of the commitment shall be 6 per cent of the unfulfilled portion of the commitment.

The assessment of progress shall be made in annual steps and shall compare achievements as scheduled in the initial package. The assessment may be carried out at any time.

The contractor shall not be subject to penalties in the event of failure to fulfill his commitments in the specified time due to delays in the granting of approvals by the appropriate Kuwaiti authorities.

g) Taxation

Where there is a tax treaty between Kuwait and other concerned countries, the treaty terms shall apply, otherwise Kuwaiti corporate taxation schedule shall apply.

CONCLUSIONS

The 1993 and 1994 budgets of ESCWA countries reflect a major revision in the priorities of public expenditures. Significant cuts in public expenditures have been made by a number of ESCWA countries, notably Saudi Arabia and Oman, aiming at reducing the budget deficits. However, the instruments used to reduce these deficits differed. While some countries postponed initiating projects and encouraged the private sector to carry out investment activities, previously considered the domain of the public sector, others resorted to a reduction of subsidies and holding down increases in public sector wages and salaries. Sources of financing budget deficits in the GCC countries in 1993 remained almost the same as in the last few years, namely drawing on foreign reserves as well as external and domestic borrowing, with the latter being increasingly made either through public sector agencies or through government direct borrowing by issuing development bonds and treasury bills and notes. Sources of financing budget deficits in other ESCWA countries were mostly taxes, and to a lesser extent, foreign aid.

Most banks in the ESCWA region continued to face pressure in 1993 to maintain the internationally required capital adequacy ratio of at least 8 per cent. To achieve this target, a number of banks raised their capital through own resources (profit and reserves), notably in Egypt, Jordan, and Lebanon; other banks, particularly in the GCC countries, through placing equities (i.e., shares) in the market. The impact of the Gulf crisis on ESCWA banks, especially GCC banks, and the difficulties faced by the banks in coping with recent developments in the international banking markets forced ESCWA banks to reduce their international engagement and focus instead on the domestic market.

Being pre-emerging markets with low levels of activity and inadequate dealing standards, ESCWA stock markets have not been able to attract significant amounts of foreign direct investment into the region. Limiting trade in these markets to the citizens of the home country constituted a major obstacle for regional co-operation, particularly in investment finance, in that it hindered the smooth flow of capital between ESCWA countries, as well as the establishment of regional market makers for the placement and marketing of issues and securities of regional projects. However, stock markets in the GCC countries, notably Oman and Bahrain, started in late 1993 opening up to other GCC citizens, though limiting their activities to issues of non-strategic industries.

The external debt of the ESCWA region increased in 1993 to around \$186 billion, up by 3.2 per cent on 1992 (\$180 billion). The rise was mainly due to the increase in the external debt of the GCC countries, constituting over 60 per cent of total ESCWA external debt at the end of 1993. A combination of lower oil revenues, reduced foreign reserves and the need to finance budget deficits forced these countries, especially Saudi Arabia and Kuwait, to resort to external borrowing. Other ESCWA countries, particularly Egypt and Jordan, were able to reschedule parts of their external debt and add significantly to their foreign reserves held in the banking systems, estimated to have been close to \$24 billion in Egypt and \$4.2 billion in Jordan at the end of 1993.

ANNEX TABLE : Summary of tax structure in the ESCWA region

	<u>Company taxes</u>	<u>Taxes on individuals</u>	<u>Withholding tax</u>	<u>Consumption tax</u>	<u>Customs duties</u>
<u>I. GCC countries</u>					
<u>A. Bahrain</u>					
	1. Income tax :	1. Personal income tax:			
	Corporate income tax is levied on oil companies : 46 per cent of net profits.	—	—	Gasoline tax, levied at a low rate.	Customs applied on imports for sale in Bahrain : 5 to 50 per cent. Alcohol customs duty : 125 per cent .
	2. Other taxes :	2. Other taxes :			
	a. Municipal tax on rented commercial property : 10 per cent.	Municipal tax:			
	b. Transfer tax of 2 per cent on immovable property.	- 10 per cent on rent of unfurnished residential property.			
	c. Companies with 10 or more employees pay social security taxes :	- 7.5 per cent on rent of furnished residential property.			
	- company contribution : 7 per cent of gross wage for pension and insurance against disability and death (applicable to Bahraini employees) and 3 per cent of gross wage for insurance against employment injuries (applicable to all employees).	- 12.5 per cent on rent of commercial property.			

ANNEX TABLE : (Continued)

<u>Company taxes</u>	<u>Taxes on individuals</u>	<u>Withholding tax</u>	<u>Consumption tax</u>	<u>Customs duties</u>
<p>- employee contribution : 5 per cent of gross wage for pension and insurance against disability and death. (Bahrainis only).</p> <p>d. Companies with more than 50 employees provide training schemes or pay a training levy. The amount levied is 2 per cent of total annual wage package of Bahraini employees and 4 per cent for foreign employees.</p>				

ANNEX TABLE : (Continued)

	<u>Company taxes</u>	<u>Taxes on individuals</u>	<u>Withholding tax</u>	<u>Consumption tax</u>	<u>Customs duties</u>
B. <u>Kuwait</u>					
	1. Income tax :	Personal income tax :			1. Standard rate : 4 per cent on the CIF value of imports.
	Corporate income tax :				2. Protection rate : 10 to 25 per cent, increasing to 40 per cent, according to circumstances.
	KD 5,251-18,750 : 5 per cent				
	KD 18,751-375,000 : 30 per cent				
	KD 375,001 and above : 50 per cent + 5 per cent surtax.				
	2) Other taxes :				
	Social security premium, applicable to Kuwaitis only : 15 per cent of salary :				
	company 10 per cent				
	employee 5 per cent				

ANNEX TABLE : (Continued)

	<u>Company taxes</u>	<u>Taxes on individuals</u>	<u>Withholding tax</u>	<u>Consumption tax</u>	<u>Customs duties</u>
C. <u>Oman</u>	<p>1. Income tax :</p> <p>a. Business income : RO 5,000-18,000 : 5 per cent; RO 500,000 and above : 50 per cent.</p> <p>b. Companies with at least 51 per cent of paid-up capital are taxed as follows : - first RO 30,000 : -; - up to RO 175,000 : 20 per cent; - RO 175,001 and above: 25 per cent.</p> <p>c. Companies with at least 35 per cent Omani ownership of paid-up capital are taxed as follows: - first RO 30,000 : -; - up to RO 175,000 : 25 per cent; - RO 175,001 and above:30 per cent.</p>	<p>Personal income tax:</p> <p>—</p>	—	<p>Municipality tax :</p> <p>2 per cent on electricity bills exceeding RO 50.</p> <p>3 per cent on lease rentals and cinema tickets.</p> <p>5 per cent on hotel and restaurant bills.</p>	<p>1. Essential imports are exempted.</p> <p>2. Alcoholic drinks are subject to a tariff rate of 100 per cent and tobacco to 50 per cent.</p> <p>3. Most other imports are subject to a rate of 50 per cent.</p>

ANNEX TABLE : (Continued)

<u>Company taxes</u>	<u>Taxes on individuals</u>	<u>Withholding tax</u>	<u>Consumption tax</u>	<u>Customs duties</u>
2. Other taxes :				
a. Training levy. Companies with more than 20 employees provide a training scheme for Omani employees or pay a training levy, ranging between 2 and 6 per cent of total gross wages.				
b. Commercial registration fees.				
c. Chamber of Commerce fees.				
d. Municipal taxes				
e. Social security :				
- company rate : 8 per cent of monthly wage plus 1 per cent insurance against employment injury;				
- employee rate : 5 per cent.				
- government rate : 5 per cent.				

ANNEX TABLE : (Continued)

	<u>Company taxes</u>	<u>Taxes on individuals</u>	<u>Withholding tax</u>	<u>Consumption tax</u>	<u>Customs duties</u>
D. <u>Qatar</u>					
	1. <u>Income tax</u> :	Personal income tax :			Generally 4 per cent ad valorem, except :
	QR 70,000-250,000 : 5 per cent; QR 5,000,000 and above : 50 per cent.				- tobacco : 50 per cent; - cement : 20 per cent; - alcoholic drinks : 100 per cent; - steel : 20 per cent; - records and musical instruments : 15 per cent.
	2. <u>Other taxes</u> :				
	Negligible municipality tax rates.				

ANNEX TABLE : (Continued)

	<u>Company taxes</u>	<u>Taxes on individuals</u>	<u>Withholding tax</u>	<u>Consumption tax</u>	<u>Customs duties</u>
<u>E. Saudi Arabia</u>					
	1. Income tax :	1. Personal income tax:			
	SR 100,000: -;				1. Most imports are taxed ad-valorem : 12 per cent.
	SR 100,001-1 million : 25 per cent;				a. A number of items are exempted from duties (e.g. goods produced in GCC countries and some essential goods).
	SR 1 million and above : 45 per cent.				b. Other items are taxed at a rate of 20 per cent (pipes, cement, soap, etc.).
	a. Zakat : Islamic tax levy of 2.5 per cent on earnings of GCC citizens in Saudi Arabia.				
	b. Social insurance :				
	- company rate : 8 per cent.				
	- employee rate : 5 per cent.				

ANNEX TABLE : (Continued)

	<u>Company taxes</u>	<u>Taxes on individuals</u>	<u>Withholding tax</u>	<u>Consumption tax</u>	<u>Customs duties</u>
<u>F. United Arab Emirates</u>					
	1. Income tax :	Personal income tax:			Standard rate : 4 per cent of CIF value of imports (a number of items are exempted).
	Corporate income tax is levied on all companies regardless of ownership. Dh 1 million-2 million : 10 per cent; Dh 5 million and above : 50 per cent.	—	—	—	
	2. Other taxes :				
	All Emirates, except Abu Dhabi, levy municipal tax at a rate of 5 per cent on rental value of a company manager's residence and 10 per cent on rental value of office premises.				

ANNEX TABLE : (Continued)

	<u>Company taxes</u>	<u>Taxes on individuals</u>	<u>Withholding tax</u>	<u>Consumption tax</u>	<u>Customs duties</u>
II. Non-GCC countries					
A. Egypt					
	1. Income tax :	1. Personal Income Tax :			
	Profit tax : 32-40 per cent.	a. Annual salary : £E 0-480 2 per cent; £E 3,840 and above : 22 per cent.	Tax is withheld at source, according to provisions of income tax law.	Sale tax : 10 per cent.	a. Foodstuff and pharmaceuticals : 0.7 per cent.
	2. Other taxes :	b. Tax on industrial and commercial profit : - commercial profit : £E 0-1,000 : 20 per cent £E 13,500 and above : 40 per cent - industrial profit : £E 0-1,000 : 20 per cent; £E 4,500 and above : 32 per cent			b. Raw materials and capital goods : 3.5 per cent.
	a. Tax on income from movable capital, applying to interest, royalties and dividends from foreign sources.				c. Manufactured goods : 85-100 per cent.
	b. Stamp duty : various rates.				
	c. Land tax : 30 per cent on annual rental value of land and buildings.				
	d. Social security payable as follows : annual salary up to £E 3,600: 40 per cent. employer : 26 per cent employee : 14 per cent	c. Tax on non-commercial profit, applies to income of self-employed individuals £E 0-1,000 : 18 per cent; £E 4,500 and above : 30 per cent.			

ANNEX TABLE : (Continued)

<u>Company taxes</u>		<u>Taxes on individuals</u>	<u>Withholding tax</u>	<u>Consumption tax</u>	<u>Customs duties</u>
F. <u>United Arab Emirates</u>	1. Income tax :	Personal income tax:	—	—	Standard rate : 4 per cent of CIF value of imports (a number of items are exempted).
	Corporate income tax is levied on all companies regardless of ownership. Dh 1 million-2 million : 10 per cent; Dh 5 million and above : 50 per cent.	—			
	2. Other taxes :				
	All Emirates, except Abu Dhabi, levy municipal tax at a rate of 5 per cent on rental value of a company manager's residence and 10 per cent on rental value of office premises.				

ANNEX TABLE : (Continued)

	<u>Company taxes</u>	<u>Taxes on individuals</u>	<u>Withholding tax</u>	<u>Consumption tax</u>	<u>Customs duties</u>
<u>II. Non-GCC countries</u>					
<u>A. Egypt</u>					
	1. Income tax :	1. Personal Income Tax :			
	Profit tax : 32-40 per cent.	a. Annual salary : £E 0-480 2 per cent; £E 3,840 and above : 22 per cent.	Tax is withheld at source, according to provisions of income tax law.	Sale tax : 10 per cent.	a. Foodstuff and pharmaceuticals : 0.7 per cent.
	2. Other taxes :	b. Tax on industrial and commercial profit : - commercial profit : £E 0-1,000 : 20 per cent £E 13,500 and above : 40 per cent - industrial profit : £E 0-1,000 : 20 per cent; £E 4,500 and above : 32 per cent			b. Raw materials and capital goods : 3.5 per cent.
	a. Tax on income from movable capital, applying to interest, royalties and dividends from foreign sources.				c. Manufactured goods : 85-100 per cent.
	b. Stamp duty : various rates.				
	c. Land tax : 30 per cent on annual rental value of land and buildings.				
	d. Social security payable as follows : annual salary up to £E 3,600 : 40 per cent. employer : 26 per cent employee : 14 per cent	c. Tax on non-commercial profit, applies to income of self-employed individuals £E 0-1,000 : 18 per cent; £E 4,500 and above : 30 per cent.			

ANNEX TABLE : (Continued)

<u>Company taxes</u>	<u>Taxes on individuals</u>	<u>Withholding tax</u>	<u>Consumption tax</u>	<u>Customs duties</u>
annual salary, £E 3,600-9,600 : 35 per cent employer : 24 per cent employee : 16 per cent	2. Other taxes : a. Capital gain tax; applies to sale of real estate in cities : 5 per cent of property value. b. Estate duty : 5 to 15 per cent.			

ANNEX TABLE : (Continued)

	<u>Company taxes</u>	<u>Taxes on individuals</u>	<u>Withholding tax</u>	<u>Consumption tax</u>	<u>Customs duties</u>
B. <u>Iraq</u> ³⁰	<p>1. Income tax:</p> <p>a. Mixed sector companies (private + public) : 35 per cent flat rate.</p> <p>b. Income tax, depending on the type of company: ID 5,000: 10 per cent; ID 85,000 and above: 60 per cent.</p> <p>2. Other company taxes:</p> <p>a) Property tax : rental value plus additional progressive rates, up to 25 per cent.</p> <p>b) Social security : companies pay 12 per cent of gross salaries, and 25 per cent of net profit after tax.</p>	<p>1. Personal Income tax :</p> <p>a. Iraqis residing in Iraq pay taxes on income from abroad: 5 to 15 per cent.</p> <p>b. Non-Iraqis and non-resident Iraqis pay taxes on income earned in Iraq : 10 to 20 per cent.</p> <p>c. Income tax on : wages and salaries (including benefits); other Income (including interest on deposits).</p> <p>i) Residents earning annually up to ID 3,000: 5 per cent;</p>	<p>1) Withholding tax of 20 per cent is enforced on interest payments to non-residents on deposits, loans, advances, mortgages and other payments.</p> <p>2) Patent and know-how royalties : royalty is subject to income tax in full at usual rates.</p>	—	<p>- Customs duties are generally ad valorem. 0 - 150 per cent, depending on type of imports and the government department for which imports being made.</p> <p>- A levy for national defence: 15 per cent of customs duties.</p> <p>- Import license levy of 0.5 per cent on capital goods and 1 per cent on consumer goods.</p>

³⁰ Tax information on Iraq applies for the pre-Gulf crisis period.

ANNEX TABLE : (Continued)

<u>Company taxes</u>	<u>Taxes on individuals</u>	<u>Withholding tax</u>	<u>Consumption tax</u>	<u>Customs duties</u>
c) Stamp duty : various rates.	<p>ID 3,001-25,000: 12 per cent; ID 25,001 and above: 30 per cent.</p> <p>ii) Non-residents earning annually : Up to ID 3,000: 10 per cent; ID 3,001-25,000: 25 per cent; ID 25,001 and above: 40 per cent.</p>			
	2. Other taxes :			
	Estate tax :			
	<p>earnings ID 10,000-20,000: 5 per cent; earnings ID 20,001-110,000: 25 per cent; earnings 110,001 and above: 35 per cent.</p>			

ANNEX TABLE : (Continued)

	<u>Company taxes</u>	<u>Taxes on individuals</u>	<u>Withholding tax</u>	<u>Consumption tax</u>	<u>Customs duties</u>
<u>C. Jordan</u>					
	1. Income tax :	1. Personal income tax :			
	Different rates apply, depending on nature of business entity :	Bank deposit earnings : 5 to 45 per cent.	Income tax and social welfare tax, deducted by the employer.	1. Sales tax : 10 per cent.	1. Rates vary according to category and origin.
	a. Public & private sector companies and partnerships (except (b) & (c) : 40 per cent.	2. Other taxes :		2. International airline tickets : 10 per cent.	
		a. Zakat, deductible from taxable income of Moslems: 2.5 per cent.		3. Domestic telephone calls: 10 per cent.	
	b. Public shareholding financial, insurance, exchange & brokerage companies and banks : 50 per cent.	b. Social security, see col. 1.			
	c. Private financial, insurance, exchange and brokerage companies : 55 per cent.	c. Social welfare tax : 10 per cent of income tax, due from employee.			
		d. Transfer tax on immovable property, paid between vendor (4 per cent) and purchaser (6 per cent).			

ANNEX TABLE : (Continued)

<u>Company taxes</u>	<u>Taxes on individuals</u>	<u>Withholding tax</u>	<u>Consumption tax</u>	<u>Customs duties</u>
2. Other taxes :				
a. Land and property tax : 17 per cent on rental value of property plus 3 per cent education tax.				
b. Social security : companies of 10 or more employees : 15 per cent of wages and salaries: employer : 10 per cent; employee : 5 per cent.				
c. University tax : 1 per cent on profit after tax.				

ANNEX TABLE : (Continued)

	<u>Company taxes</u>	<u>Taxes on individuals</u>	<u>Withholding tax</u>	<u>Consumption tax</u>	<u>Customs duties</u>
D. Lebanon ³¹	<p>1. Income tax :</p> <p>Business income, movable capital income, wages and salaries, and pension payments : 6 to 50 per cent.</p> <p>2. Other taxes :</p> <p>a. Tax on disposal or revaluation of fixed business assets : a flat rate of 15 per cent on profit, unless profit is used to extinguish losses.</p> <p>b. Tax on dividends : 12 per cent.</p> <p>c. Municipal tax : 15 per cent.</p> <p>d. Property tax : 11 per cent on rent plus progressive rates as follows : First LL 350,000 : exempted;</p>	<p>1. Personal Income tax :</p> <p>Business income, income from movable capital on wages and salaries.</p> <p>Movable capital tax : 12 per cent on gross receipt.</p> <p>Wages and salaries : up to LL 270,000: 2 per cent; LL 17.3 million and above : 32 per cent; lump sum wages and salaries : 6 per cent.</p> <p>2. Other taxes :</p> <p>Municipal tax, property tax, reconstruction surtax and social security, (see col. 1).</p>	<p>1. Tax on interest & dividends.</p> <p>2. Tax on wages and salaries and social security contributions.</p> <p>3. Tax on payments to non-residents or persons with no registered place of business is withheld at source.</p>	---	<p>1. Rates vary according to category and origin.</p> <p>2. Municipal tax : 3.5 per cent on imports, except imports from Arab countries.</p> <p>3. Stamp duty : 1.2 per cent on all imports.</p> <p>4. Surcharge : 10 per cent of applicable customs duty on certain textiles and clothes.</p>

³¹ Lebanon was planning in 1993 the introduction of new tax and customs legislation, see INSET 1, Lebanon: Recent monetary and fiscal developments.

ANNEX TABLE : (Continued)

<u>Company taxes</u>	<u>Taxes on individuals</u>	<u>Withholding tax</u>	<u>Consumption tax</u>	<u>Customs duties</u>
next LL 250,000 : 3 per cent; LL 4 million and above : 23 per cent.				
e. Reconstruction surtax : 3 per cent of the sum on income tax and built-in property tax.				
f. Social security :				
- maternity leave :				
employer : 5.5 per cent;				
employee : 7.5 per cent.				
- family allowances :				
employer : 7.5 per cent;				
employee : nil.				
- end of service :				
employer : 8 per cent;				
employee : nil.				
g. Stamp duty : (various).				

ANNEX TABLE : (Continued)

E. Syrian Arab Republic	<u>Company taxes</u>		<u>Taxes on individuals</u>		<u>Withholding tax</u>	<u>Consumption tax</u>	<u>Customs duties</u>
	<u>1. Income tax :</u>		<u>Personal income tax :</u>		<u>1. Earned interest :</u>	<u>1. Gasoline and</u>	<u>1. Vary from 1 per cent</u>
	Profit from activities in the Syrian Arab Republic :		a. Taxes on wages and salaries :		subject to tax from personal property.	kerosene tax plus sweets, sugar and rice tax.	on essential items to over 100 per cent on luxury items.
	Tax rates vary according to amount of profit. Range between 10 per cent (up to LS 20,000) and 45 per cent (LS 1 million and above) plus a war tax of 30 per cent on total tax due.		first LS 1,000 : 5 per cent; second LS 1,000 : 7.5 per cent; third 1,000 : 10 per cent; fourth LS 1,000 : 12.5 per cent; 4000 and above : 15 per cent; plus a war tax of 10 per cent of total tax due.		2. Patent and know-how royalties : 15 per cent. Also income from motion pictures : 10 per cent of gross payment which is taxed at a 17 per cent flat rate.	2. Luxury services and items : 5 to 20 per cent.	2. Unified tax on imports (since 1980). Rate varies according to customs tariff levied : 6 to 35 per cent .
	<u>2. Other taxes :</u>		c. Social security : employee : 7 per cent.		3. Service fees, taxed either under business profits or personal property.		
	a. Property income : 7.5 per cent (residents) and 15 per cent (non-residents).		d. Foreigners earning income in the Syrian Arab Republic from non-permanent activities: 75 per cent of gross income, which is taxed at a flat rate of 17 per cent.				
	b. Business property income : 17-60 per cent plus 30 per cent war surtax.						
	c. Property registration fees : 10 per cent of property value.						
	d. Stamp duty (various).						

ANNEX TABLE : (Continued)

F. <u>Yemen</u>	<u>Company Taxes</u>	<u>Taxes on Individuals</u>	<u>Withholding Tax</u>	<u>Consumption Tax</u>	<u>Customs Duties</u>
	1. Income tax :	1. Personal income tax:	Tax on wages and salaries of employees is withheld at source.	—	Rates vary according to category and origin.
	Commercial and industrial profit : 28 to 36 per cent, according to type of institution.	YR 0-3,600: 3 per cent; YR 28,800 and above : 36 per cent.			
	2. Other taxes :	2. Other taxes :			
	a. Zakat : 2.5 per cent of business profit (if moslems).	(consultancy, arbitration) : 8-22 per cent.			
	b. Practice tax : foreign companies not subject to Zakat : 2.5 per cent of working capital.				
	c. Real estate taxes :				
	i. real estate revenue tax : 9 per cent on rent for non-residential; 16 per cent for other properties.				
	ii. real estate sales tax : 3 per cent.				
	d. Stamp duty : (numerous).				

Source: International Bureau of Fiscal Documentation, Taxes & Investments in the Middle East, Supplement 20, December 1982 to Supplement 64, June 1994.