ECONOMIC OVERVIEW
OF THE
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by

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ANE REGION ECONOMIC OVERVIEW
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Macroeconomic Setting. USAID countries in the Asia and Near East region have a population of 1,685 million with an estimated per capita income of $490. This compares to a total world population of 5.4 billion and a per capita income of $4,280. The current population growth rate is 2.2 percent. The ANE region runs the gamut from among the world's poorest countries to those considerably better off. As a region, ANE includes some of the fastest growing economies in the world over the past decade. The dynamism of Indonesia and Thailand fosters higher economic growth rates in their neighboring countries. In 1994, more than half of the economies in the ANE region are estimated to have expanded by at least 5 percent.

Fiscal Policy. In most ANE countries, budget deficits average about 4 percent of GNP. In Indonesia, Jordan, and Thailand, the central government budget has been turned to a surplus by good fiscal management and economic growth. Other countries with low incomes and huge development needs, including Nepal, Bangladesh, and India, have registered chronically large budget deficits and rely on foreign transfers to help bridge the gap.

Financial Reform and the Commercial Banking System. Systemic reforms are being implemented in many ANE countries. The policy goals of these efforts often include the deregulation of the financial sector, support for higher private sector investment, expansion of financial services and instruments, and greater availability of banking services in rural areas. For some countries, such as Cambodia, Mongolia, and Viet Nam, financial reforms are effectively creating a new banking system. For other countries, such as Morocco and the Philippines, reforms are primarily lifting restrictions on private sector banking. In other countries, such as Indonesia, Oman, and Thailand, the focus of reforms is on improving prudential regulation, capital adequacy, and other needs of a competitive financial system.

Inflation and Money Growth. Relative to developing countries in other regions, the ANE region typically experiences low or moderate inflation. Although money growth rates in several ANE countries have been excessive in the past several years, most are effecting a decline in the growth rate for 1994.

Balance of Payments. The growth of merchandise exports over the past decade has averaged about 4 percent per year for all developing countries. In the ANE region, however, the pace of export growth has been twice as fast, with Egypt being a notable exception. ANE countries are relatively less encumbered by external debt than countries in other regions. On average, total external debt is equal to around one-third of GDP in South Asia and one-half of GDP in East Asia. The debt ratio for Near East countries is higher at around two-thirds of GDP.

Exchange Rate Policies. Of twenty-one countries in the ANE region, eight maintain a currency peg: Oman, Syria, and Yemen (to the U.S. dollar); and, Bangladesh, Jordan, Morocco, Nepal, and Thailand (to a composite basket of currencies). Nine countries maintain a "managed float" exchange rate regime: Cambodia, Egypt, Indonesia, Israel, Lao PDR, Pakistan, Sri Lanka, Tunisia, and Viet Nam. Four countries maintain an "independent float" regime: India, Lebanon, Mongolia, and the Philippines. Compared to the rest of the world, the ANE region has relatively fewer countries with independently floating exchange rate system, but relatively more countries that manage their float.

Investment and Growth. Macroeconomic and structural changes within the ANE region over the past two decades have increased the domestic investment and savings rates. When measured as a share of GDP, the investment rate in South Asia increased from 14 to 20 percent, and in the Near East from 17 to 24 percent. Investment rates were already high for the East Asian countries, but nudged up further from 24 to 25 percent.

Donor Involvement in the ANE Region.

International Monetary Fund (IMF): Of twenty-one IMF member countries in the ANE region, ten currently have an Arrangement with the Fund. Viet Nam has a $210 million Stand-By Agreement. Four countries have Extended Fund Facilities (EFF): Egypt ($580 million), Jordan ($185), Pakistan ($550), and the Philippines ($688). Six countries have Enhanced Structural Adjustment Facilities (ESAF): Cambodia ($122 million), Lao PDR ($51), Mongolia ($59), Nepal ($49), Pakistan ($880), and Sri Lanka ($487). As of August 1994, total Fund Arrangements in the ANE region was $1,475 million, which represented just under ten percent of Fund Arrangements worldwide.

World Bank (IBRD) and International Development Association (IDA): Of the twenty-two countries in the ANE region, eighteen are borrowers from the World Bank Group. Of the projects approved for either IBRD or IDA funding during the 1994 fiscal year (ended June 30, 1994): 14 projects in six Near Eastern countries total $1.01 billion; 18 projects in four South Asian countries total $2.36 billion; and 23 projects in six East Asian countries total $2.45 billion. In fiscal year 1994, the ANE region received $5.83 billion in projects approved for IBRD and IDA funding. This represents 28 percent of the total project funding by IBRD in all countries.

Asian Development Bank (ADB): Of the 12 Asian countries in the ANE region, all are currently or have been recent borrowers from the ADB. In 1993, there were 59 projects approved in these countries for a total project cost of $12.97 billion.

United States Agency for International Development (USAID): In FY 1994, USAID spending in the ANE region was an estimated $2.5 billion, representing 31 percent of total outlays (DA, ESF, and PL480). In the ANE region, 88 percent of OBY funding in 1994 is allocated to ESF while 3 percent went to fund population projects and 9 percent to development assistance. In the Near East, 98 percent of the funds were used for economic support. In Asia, in contrast, only 10 percent of total funding came via ESF with the majority (75 percent) in the form of development assistance. These regional funding levels reflect budget cuts over the past several years.

Asia & Near East Region: Selected Economic Indicators, 1992-95

12/08/94	1992	1993	Est. 1994	Proj. 1995
REAL GDP GROWTH (%)				
Near East				
Egypt	2.8	1.5	2.0	3.3
Israel	6.6	3.5	5.3	n.a.
Jordan	11.2	5.8	5.5	5.8
Lebanon	4.5	7.0	n.a.	n.a.
Morocco	-3.0	1.2	1.7	n.a.
Oman	n.a.	n.a.	n.a.	n.a.
Tunisia	8.0	3.0	6.2	n.a.
West Bank/Gaza S	2.3	n.a.	n.a.	n.a.
Yemen	5.8	5.2	n.a.	n.a.
South Asia				
Bangladesh	4.3	5.0	5.5	n.a.
India	4.2	4.5	4.0	n.a.
Nepal	5.1	6.2	4.5	n.a.
Pakistan	3.0	7.5	6.5	n.a.
Sri Lanka	4.3	5.7	5.0	n.a.
East Asia				
Cambodia	7.0	5.7	7.5	n.a.
Indonesia	6.4	6.5	6.7	7.0
Lao PDR	7.0	4.0	6.0	7.0
Mongolia	-7.6	-1.3	2.5	3.5
Philippines	0.6	2.0	4.0	5.5
Thailand	7.5	7.8	8.3	8.2
Viet Nam	8.3	8.0	9.0	10.0

	Billions of US$	Annual Growth Rate (%)
EXPORTS -- 1992		
Near East	33.6	5.6
South Asia	30.2	7.4
East Asia	77.4	12.2

	Millions	Annual Growth Rate (%)
POPULATION -- 1994		
Near East	123	2.5
South Asia	1,204	2.1
East Asia	406	1.9

Source: International Monetary Fund, World Bank, and Asian Development Bank.

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BANGLADESH ECONOMIC OVERVIEW
November 1994

Macroeconomic Setting. Bangladesh has a population of 125 million people and a population density of 740 people per square kilometer, three times that of India. The population growth rate between 1985-93 was 2.2 percent annually. Bangladesh's natural resources are under considerable strain. Despite these adverse factors, annual real GDP growth was 5.0 percent in 1993 and is estimated to be 5.5 percent for 1994. Real per capita GNP is estimated to be $240. Structural reforms in 1993/94 will be focused on the financial sector, tax administration and expenditure policy, public enterprise restructuring, and the exchange and trade regimes.

Fiscal Policy. Fiscal goals of the structural reforms are to raise the revenue/GDP ratio to 12.1 percent of GDP, and maintain the ratio of current expenditure to GDP at about 18 percent. In 1994, it is estimated that revenue/GDP was 11.3 percent, less than the target. However, expenditure/GDP was less than the 18 percent target in 1994.

Privatization. The privatization program continues to be slow despite steps taken to strengthen the Privatization Board. The Government is preparing a revised set of guidelines and regulations to enhance the autonomy of public sector manufacturing enterprises, and is considering assuming the bank debt of some public enterprises during 1994.

Money Growth and Inflation. From 1983 to 1990, Bangladesh recorded an average annual inflation rate of 11.7%, but the stabilization program cut this rate in half by 1992. A reduction in the growth of the money supply accompanied fiscal stabilization. The decline in inflation and credit was accompanied by a liberalization of interest rates which allowed real deposit rates to increase, which in turn led to an increase in bank deposits. In 1994, broad money growth is projected at 5 percent.

Financial Sector Reform Project [FSRP]. There are four government-owned banks (NCB's) which dominate the commercial banking system in Bangladesh. These NCB's are the focus of USAID's FSRP technical assistance. They represent 63% of the system's branch network, 50% of outstanding loans, and 60% of bank deposits. The Government of Bangladesh has been implementing FSRP through these banks with USAID technical assistance and IDA lending. The FSRP reforms include interest rate liberalization, production of quarterly Early Warning Systems Reports, streamlining bank supervision, elimination of directed credit and subsidized refinancing, and more stringent bad debt accounting regulations. The loan default problem is the biggest challenge facing FSRP. A weak investment climate has muted the impact of interest rate liberalization. Other measures under consideration include strengthening the central bank's enforcement powers and doubling the minimum capital requirement for new banks. In June 1993, the formation of a Securities & Exchange Commission was announced.

Balance of Payments. Export volume growth decreased significantly in 1993 to 12.3 percent, but is estimated at 14.5 percent in 1994. Import volume growth has been steadily increasing since 1991, and is also up by 14.5 percent for 1994. The 1994 trade deficit is estimated at 2 billion US dollars.

Exchange Rate Policies. Effective January 1, 1992 the dual foreign exchange markets were unified. Current foreign exchange policy is managed so as to maintain competitiveness of the traded goods sector. A shadow market for foreign exchange exists, with a premium of approximately 5%. In April 1993, the Central Bank devalued the currency (taka) by around 1.8% and announced the lifting of several controls on foreign exchange transactions. This was the first devaluation since March 1992 and was followed by a rise in the parallel market exchange rate. Taka convertibility for current account transactions was announced in October 1993. Since February 24, 1994, the Taka has been stable at 40.13 per U.S. dollar.

Investment. Bangladesh historically has the lowest domestic investment rate among South Asian countries. Private investment as a percentage of GDP has been fluctuating between 5.9-7.0% since 1985, and has not improved over the past two years despite the fiscal and monetary stabilization achieved. Public investment seems to be declining, due to low absorptive capacity and weaknesses in the agencies responsible for project implementation.

Donor Involvement in Bangladesh.

International Monetary Fund (IMF): Bangladesh has signed three different IMF financial arrangements: a stand-by agreement worth $252 million which expired June 1987; a Structural Adjustment Facility [SAF] worth $281 million, which expired February 1990; and an Enhanced Structural Adjustment Facility [ESAF] worth $483 million, which expired August 1993.

IBRD (World Bank): IDA is currently the largest donor to Bangladesh. Cumulative IDA commitments were $6.2 billion as of February 1994. The leading sectors of project credits have been agriculture and energy, which combined for more than one-third of the total. IDA's current share of total external aid commitments to Bangladesh is around 20 to 25 percent. For the period FY92-96 IDA's lending program is scheduled to average about US$ 450 million per year.

Asian Development Bank (ADB): As of December 1993 the ADB had provided $4.162 billion for investment projects and $87 million for 165 technical assistance grants. The ADB gives highest priority to agriculture, which received 44% of all ADB loans. The ADB's new medium-term strategy reflects a focus on greater economic growth, alleviation of poverty, WID, population control, and environmental protection.

United States Agency for International Development (USAID): Broad based economic growth resources total approximately 14, 14, and 19 million dollars in 1994, 1995, and 1996, respectively. These resources will fund activities such as industrial promotion (1994 & 1995), financial sector credit (1994), women's enterprise development, agrobased industries and technology development, job opportunities through business and banking (1996), and rural electrification. Title III food aid totaled 44.6 million dollars in 1994.

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Bangladesh: Selected Economic Indicators, 1991-95

08/29/94	1991	1992	1993	Est. 1994	Proj. 1995
NATIONAL ACCOUNTS*					
Real GDP Growth Rate (%)	4.2	4.3	5.0	5.5	n.a.
Real Per Capita GNP (Atlas method) US$	220.0	220.0	230.0	240.0	n.a.
INVESTMENT & SAVINGS*					
Gross Domestic Investment/GDP (%)	11.9	13.7	12.7	n.a.	n.a.
Private	5.9	7.0	6.3	n.a.	n.a.
Gross Domestic Savings/GDP(%)	4.5	5.5	5.1	n.a.	n.a.
Private	4.1	5.0	4.6	n.a.	n.a.
PRICES					
CPI Annual Change (%) (2)	1.9	1.5	3.9	2.4	n.a.
EXCHANGE RATE [Taka/$US]					
Market Rate (period average) (3)	36.6	39.0	39.6	40.6	n.a.
Pegged to Currency Basket as of January 1992					
MONEY					
Money, Percentage Change (M1)	7.7	13.6	16.0	11.0	n.a.
Broad Money, Percentage Change (M3)	13.4	12.2	10.5	5.0	n.a.
Total Domestic Credit, Percentage Change	5.0	6.6	6.1	5.7	n.a.
CENTRAL GOVERNMENT (% OF GDP)					
Total deficit/GDP	5.0	5.3	7.0	6.1	n.a.
Total Revenue (excluding grants)/GDP	10.9	11.6	11.8	11.3	n.a.
Total Expenditure/GDP	15.9	16.9	18.8	17.4	n.a.
Deficit Financing, Foreign	4.9	5.6	5.7	4.9	n.a.
Deficit Financing, Domestic	0.1	-0.2	1.3	1.1	n.a.
BALANCE OF PAYMENTS [blns US$]*					
Current Account Balance	-0.6	-0.4	0.0	0.2	n.a.
Trade Balance	-1.5	-1.5	-1.7	-2.0	n.a.
Exports fob	2.0	2.4	2.7	3.0	n.a.
Annual Percentage Change (%)	16.0%	19.6%	12.3%	13.7%	n.a.
Imports cif	3.5	3.9	4.4	5.0	n.a.
Annual Percentage Change (%)	-0.1%	11.8%	12.0%	14.5%	n.a.
Foreign Direct Investment	0.01	0.02	0.02	0.03	n.a.
EXTERNAL DEBT*					
Debt Outstanding, June 30 [blns US$]	12.2	12.7	13.0	n.a.	n.a.
Debt Outstanding/GDP (%)	51.2	51.4	51.5	n.a.	n.a.
Debt Service/Export Goods & Services (%)	15.0	11.8	11.0	n.a.	n.a.
POPULATION(1)					
Population [mlns]	117	119	122	125	128
Population Growth Rate (%)	2.3	2.3	2.4	2.4	2.4

* Data refers to the Bangladeshi fiscal year, which runs from July 1 to June 30. For example, the 1994 column refers to fiscal year 1994/95.

(1) Population data obtained from U.S. Bureau of Census

(2) End of Period

(3) As of January 1, 1992, the official exchange rate and the secondary exchange market rate were unified. Data for 1991 is for official exchange rate.

CAMBODIA ECONOMIC OVERVIEW
November 1994

Macroeconomic Setting. Cambodia has a population of 9.5 million people with a GNP per capita of $260. The average annual population growth rate during 1985-1993 was 2.8 percent. The real GDP growth rate for 1994 is estimated at 7.5 percent.

Market-oriented reforms began in 1985-86 and have accelerated in recent years, but progress has been hampered by political and macroeconomic instability. Reforms implemented so far include deregulation of prices, restoration of private property rights, decollectivization of agriculture, legalization of private enterprise, tax and exchange rate reforms, and liberalization of trade. Financing these reforms has been made more difficult by the lack of external financing available to Cambodia after the dissolution of the Council for Mutual Economic Assistance (CMEA). Structural adjustment is made more difficult by the extreme levels of poverty and difficult living conditions in the country.

Fiscal Policy. The 1993 overall budget deficit rose to an estimated 5.7 percent of GDP from about 3.6 percent of GDP in 1992, as expenditures increased from 9.8 to 11 percent of GDP and revenues decreased from 6.2 to 5.2 percent of GDP over the previous year. The tax system has been slow to replace the elimination of transfers from state-owned enterprises with new revenue. The tax and customs administration systems have only been in place since 1985 and lack experienced staff. The absence of adequate banking services forces almost all tax payments to be made in cash, creating inefficiencies and requiring careful monitoring.

Financial Reform and the Commercial Banking System. Reforms in the banking sector have converted the previous monobank system into a broadly diversified and competitive banking sector. However, the Central Bank lacks autonomy and accommodates fiscal policy by printing currency to finance government budget deficits. Cambodia's economy sustains a low degree of monetization, a circumstance exacerbated by residents' unwillingness to deposit funds in the banking system, given the uncertain political climate in Cambodia. Foreign currencies, particularly the US dollar and Thai baht, form a substantial portion of currency in circulation. Finally, there are no central bank open market operations, or clearing house facilities, leaving interbank transactions to be settled in cash.

Inflation and Money Growth. Money supply growth is determined primarily by the Government's demand for cash to finance the budget deficit. The loss of assistance from CMEA members has led to an increased burden on domestic financing of the deficit, which fuels inflation. In 1992, for example, over 45% of total budgetary expenditures were expected to be financed by monetary creation. Inflation in 1992 reached almost 180%, but the implementation of a package of stabilization policies allowed the government to rely less upon bank financing starting in the last quarter of 1992. These new policies helped to reduce inflation to an estimated 31% by the end of 1993.

Balance of Payments. Cambodia's current account deficit declined from almost 10 percent of GDP in 1988 to 2.1 percent in 1993, with the loss of aid from former CMEA members causing a progressive decline in imports. Cambodia's external debt consists primarily of obligations to the governments of the former CMEA countries, which stood at about $763 million by the end of 1991. Since 1990, Cambodia is yet to amortize any portion of its outstanding debt.

Exchange Rate Policies. Cambodia follows a managed float exchange rate policy. There are two foreign exchange markets, the official market used by the Government, state-owned enterprises and the diplomatic community, and a parallel market which is illegal but tolerated, where an estimated 75% of foreign exchange transactions occur. High inflationary expectations and less willingness to hold domestic currency has increased the spread between the two rates to 15% by the end of 1992. In November 1992, the government began to institute policies aimed at reducing the spread by pegging the official rate to the parallel rate. By March 1994, the spread had been reduced to 1 percent.

Investment and Growth. Real GDP growth recovered to 7%-8% in 1991-92 due to increased activity in the construction and services sectors, which partly reflected new flows of private foreign investment. However, the turmoil of the last few decades has prevented production in key sectors from fully returning to levels reached in the late 1960's. The unsettled economic climate and shattered infrastructure will probably continue to hamper economic growth in the near future.

Donor Involvement in Cambodia.

International Monetary Fund (IMF): By the end of October 1993, Cambodia's total overdue arrears to the Fund were cleared. Cambodia requested a three year ESAF arrangement in February 1994, amounting to US$116 million.

IBRD (World Bank): Although Cambodia became a member of the Bank on July 22, 1970, it never borrowed from the Bank before relations were interrupted in 1975. Since resuming active participation in 1992, the Bank has extended a grant of $1.25 million and has executed two UNDP projects totalling $7.9 million for water and power rehabilitation. An Emergency Rehabilitation IDA Credit of $63 million was approved by the Board on October 26, 1993.

Asian Development Bank (ADB): Cambodia's arrears to the ADB, approximately $2 million, were cleared in November 1992. The ADB plans to provide $182.7 million in lending for 6 projects during 1992-95, focusing on urgent infrastructure rehabilitation in four priority sectors -- transport, power, agriculture, and education -- as well as assistance with macroeconomic reforms geared toward a market-based economy.

United States Agency for International Development (USAID): Broad based economic growth resources will total 13, 10, and 13 million dollars in 1994, 1995, and 1996, respectively. These resources will go towards projects such as emergency road repair (1994 only), technical support projects (1994 & 1995), democratic initiatives (1994 & 1995), family health and birth spacing, assistance to primary education (1995 & 1996), environmental management (1995 & 1996), democratic governance (1996), and farm to market roads (1996).

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Cambodia: Selected Economic Indicators, 1991-95

11/29/94

	1991	1992	1993	Est. 1994	Proj. 1995
NATIONAL ACCOUNTS					
Real GDP Growth Rate (%)	7.6	7.0	5.7	7.5	n.a.
Per Capita GNP (Atlas method) US$	$200	$220	$240	$260	n.a.
INVESTMENT & SAVINGS					
Gross Domestic Investment/GDP (%)	9.4	9.8	14.0	n.a.	n.a.
Private	9.0	9.5	n.a.	n.a.	n.a.
Gross Domestic Savings/GDP (%)	7.7	7.5	8.3	n.a.	n.a.
Private	n.a.	n.a.	n.a.	n.a.	n.a.
PRICES					
CPI Annual Change (%)	87.9	176.8	31.0	0.0	n.a.
EXCHANGE RATE (Riels/U.S.$) Managed float	703	1,266	2,830	4,500	n.a.
MONEY					
Money, Percentage Change (M1)	27.4	121.4	19.7	n.a.	n.a.
Broad Money, Percentage Change (M2)	28.7	214.1	32.5	n.a.	n.a.
CENTRAL GOVERNMENT (% OF GDP)					
Total deficit/GDP	-3.4	-3.6	-5.7	n.a.	n.a.
Total Revenue (excluding grants)/GDP	4.4	6.2	5.2	n.a.	n.a.
Total Expenditure/GDP	7.8	9.8	11.0	n.a.	n.a.
Deficit financing, foreign/GDP	0.5	0.1	4.3	n.a.	n.a.
Deficit financing, domestic/GDP	2.9	3.5	1.4	n.a.	n.a.
BALANCE OF PAYMENTS [mlns US$]					
Current Account Balance	-25.2	-44.6	-41.3	n.a.	n.a.
Balance as % of GDP (%)	-1.3	-2.3	-2.1	n.a.	n.a.
Trade Balance	-32.5	-86.2	-184.8	n.a.	n.a.
Exports fob	212.5	264.5	219.1	n.a.	n.a.
Annual Percentage Change (%)	147.7	24.5	-17.2	n.a.	n.a.
Imports cif	245.0	350.7	403.9	n.a.	n.a.
Annual Percentage Change (%)	49.8	43.1	15.2	n.a.	n.a.
Foreign Direct Investment	n.a.	n.a.	n.a.	n.a.	n.a.
EXTERNAL DEBT					
Debt Outstanding, 12/31 [mlns US]	1,603	1,552	1,552	1,552	n.a.
Debt Outstanding/GDP (%)	n.a.	n.a.	n.a.	22.7	24.6
Debt Service/Export Goods & Services(%)	n.a.	n.a.	n.a.	16.5	15.4
POPULATION [mlns]	8.7	9.0	9.2	9.5	9.8
Growth Rate (%)	2.8	2.8	2.8	2.8	2.8

Source: International Monetary Fund, World Bank, and Asian Development Bank.

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ARAB REPUBLIC OF EGYPT ECONOMIC OVERVIEW
June 1994

Macroeconomic Overview. Participation in the Gulf War has proved to be a financial boon for Egypt. Due to debt forgiveness and its own reforms, Egypt's financial position has greatly improved. For the three years prior to the War, Egypt's external current account deficit had ranged between $2 and $3 billion annually with no improvement in sight. The country was accumulating large, unsustainable debt service arrears. The budget deficit was about 20 percent of GDP. In 1989, total external debt reached about $52 billion. Foreign reserves were down to just several weeks of imports.

After the War, relief was provided to Egypt. The United States took the lead in a program of debt reduction, writing off military debt of $6.7 billion. Total debt reduction from all donors was approximately $21 billion. In addition, the government embarked upon a wide-ranging program of economic reform under the auspices of international donors.

As a result, Egypt's economy has stabilized. An expected drop in real GDP for 1991/92 did not materialize, but the economy remains stagnant. Real GDP was estimated to grow at the annual rate of 2.8 percent in 1992 and only 1.5 percent in 1993. Various revenue measures and greater control of expenditures have cut the budget deficit to 4.7 percent of GDP in 1992/93. Egypt achieved a positive current account balance in 1992 for the first time in ten years, although the balance is now expected to be slightly negative in 1993. With the latest debt reduction, Egypt's outstanding debt amounts to less than $40 billion in 1993. Based on its healthy financial situation, Egypt appears quite capable of meeting all debt commitments, at least over the short and medium term.

Retarding Egypt's economic growth and development is the structure of its economy. Despite recent indications of an expanding private sector, the public sector remains the major employer of nonagricultural workers. The economy is still inward looking and highly regulated.

Privatization, reduction of protection, and elimination of unnecessary regulations controlling the private sector are major themes of structural reform, together with improving the organizational and management structure of public enterprises. The new Public Investment Law 203 and its executive regulations were issued in 1991, allowing greater autonomy to public sector companies. An office for privatization was established and enterprises have been brought to the point of sale. Non-tariff barriers to trade are being reduced, as is the level of tariffs. Unfortunately, progress to date in each of these critical structural reform areas is far short of what is needed.

Notwithstanding the substantial financial progress over the last couple of years, a fundamental problem is the inability of the economy to productively absorb new entrants into the labor force. This problem threatens Egypt's economic and social stability. Although unemployment statistics vary greatly among sources, official labor statistics for 1992 show a 12 percent unemployment rate while other estimates show significantly higher rates.

Debt relief and capital inflows have given Egypt an unprecedented opportunity to restructure its economy with donor support. Within the constraints of a delicate political climate, Egypt must persist with the reform program it has undertaken in order to attain its long-term economic objectives. This is especially true of reforms to reduce protection, privatize, and eliminate restrictions on the private sector. These reforms will allow competitive market forces and private enterprise into the largely state-owned industrial sector, which should increase productivity, exports, and domestic and foreign investment.

Donor Involvement in Egypt.

World Bank and the International Monetary Fund (IMF): For the second phase of the GOE's economic reform program, the key elements of both the World Bank's Structural Adjustment Monitoring Program (SAMP) and the IMF's Extended Fund Facility (EFF) are outlined in the GOE's Matrix of Policy Actions in the GOE's Letter of Intent.[1] This matrix identifies a variety of policy reforms which the GOE has agreed to implement between mid-1993 and mid-1995. Release of the third tranche of debt relief by the Paris Club will be contingent upon satisfactory progress by the GOE in implementing this reform program.

Key reforms include inter alia: privatization of 25 percent of public sector company assets by June 1995 and the restructuring of other public companies with operational and financial problems; implementation of annual 10 percentage point reductions in import duties above 30 percent between December 1993 and December 1995--thus reducing the maximum rate from 80 percent to 50 percent (with exceptions for cigarettes, alcoholic beverages, and cars); elimination of tariff preferences, prior approvals, and import bans (except for textiles); implementation of a global personal income tax by December 1993, and a retail level value added tax by July 1, 1995; rationalization of investment incentives and the use of free zones; financial sector reforms aimed at privatization of joint venture banks, liberalization of bank fees and charges, and reform of the pension and social insurance systems; price liberalization and rent decontrol; and regulatory reforms to facilitate private sector investment and permit the freer functioning of the labor market.

United States Agency for International Development (USAID): USAID's policy reform efforts are largely designed to complement and reinforce the IMF/World Bank programs. Through its Sector Policy Reform Program, USAID is promoting policy reforms in the financial, fiscal, trade, and enterprise sectors. USAID is also promoting policy reforms in the agricultural sector designed to: liberalize markets for agricultural crops (e.g. cotton and rice) and inputs (e.g. fertilizer), promote GOE divestment of its role in input distribution, and enhance private sector participation in agricultural input distribution. USAID is also working at the project level to support the GOE's privatization efforts. As a whole, these reforms aim to increase Egypt's macro-economic stability, expand the role of the private sector, liberalize trade, and generally promote the development of a more efficient market-oriented economy.

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[1]The SAMP has no funding associated with it, while the EFF will make up to SDR 400 million (approximately $560 million) available to the GOE over the next three years subject to adequate performance.

Egypt: Selected Economic Indicators, 1989-94

	1990	1991	1992	1993	Est. 1994	Proj. 1995
NATIONAL INCOME						
Per Capita GNP (Atlas method)*	640	610	610	630	..	..
Real GDP Growth Rate (% change)**	5.7	1.1	4.4	1.5	1.5	3.3
U.S. LOANS & GRANTS (m. U.S. $)						
Loans+	192.9	160.1	40.4	**0	..	..
Grants+	2,196.4	2,139.7	2,194.7	**2,162	..	..
INVESTMENT & SAVINGS						
Gross Investment/GNP (%)	..	..	15.6	15.2	15.4	16.2
Gross National Savings/GNP (%)	..	..	18.7	14.3	13.9	15.4
PRICES, EMPLOYMENT						
Consumer Price Index (period average % change)	21.2	21.4	18.7	14.3	**9.6	15.4
Unemployment Rate (%)**	7.6	8.4	9.2	10.1	9.6	..
EXCHANGE RATE (Egyptian Pounds/U.S.$)						
Market Rate (end of period average)	1.1	2.0	3.3	3.3	3.4	..
MONEY						
Money Supply (M-2) Growth (%)	19.7	27.5	14.3	16.5	**10	9.5
BALANCE of PAYMENTS (b. U.S.$)						
Current Account Balance (excl. offic. trans.)	-3.7	-3.2	1.3	-0.4	-0.7	-0.4
Exports f.o.b.	3.3	3.9	3.6	3.5	3.7	3.9
Imports c.i.f.	11.4	11.4	10.0	10.5	11.0	11.9
Net Service	0.9	0.5	2.2	1.6	1.7	2.4
Official Transfers	1.1	4.8	1.4	1.3	1.2	1.3
Capital Account Balance	-1.2	-1.0	2.8	2.3	0.9	0.6
Overall Balance	-1.2	2.0	5.9	**4.5	**1.8	2.0
DEBT						
Gross External Debt (b. U.S.)	46.1	34.0	34.3	34.4	**34.5	35.3
As % of GDP	..	..	96.6	93.9	**92	86.4
Debt Service Ratio						
(% of current receipts after rescheduling)	..	..	15.9	**15	**13.9	13.3
PUBLIC SECTOR (% of GDP)						
General Gov. Expenditure	40.5	46.1	39.8	39.5	38.4	35.8
Revenue	24.7	28.9	34.8	34.8	35.8	34.3
Overall Deficit (Excluding Grants)	-15.8	-17.2	-5.0	-4.7	**-2.8	-1.5
Grant Financing	12.4	15.4	-1.4	-1.2	-0.9	..
Domestic Financing	9.8	1.7	-2.9	-1.9	-1.1	..
Foreign Financing	2.6	13.7	1.5	0.7	0.2	..
SOCIAL INDICATORS (% unless otherwise indicated)						
Population (m.)**	55.57	56.92	58.2	59.6	..	..
Population Growth*	2.4	2.3	2.2	**2.4	..	..
Infant Mortality (per thousand live births)*	62	60	59	..	..	..
Literacy Rate*	..	52	..	..	..	..
School Enrollment Ratio (m/f)*	..	98	..	..	..	..

Sources: Data obtained from the International Monetary Fund.
*Data obtained from the World Bank.
+ Data obtained from USAID.
** Data obtained from USAID/Cairo

Fiscal Year ends June.

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Dec. 22, 1994

INDIA ECONOMIC OVERVIEW
November 1994

Macroeconomic Setting. India has a population of 903 million that is growing at the rate of 1.9 percent annually. Per capita GNP in India is $360. The growth rate of real GDP in 1993 was 4.5 percent and is estimated at 4.0 percent for 1994. In July 1991, the Rao government announced a series of reforms and stabilizing measures, including trade policy reforms, budget measures, revised investment rules, and financial sector reforms.

Fiscal Policy. In FY93 (ending March 31, 1994), the fiscal deficit increased sharply to 7.4 percent of GDP, as a result of both revenue shortfalls and expenditure overruns. The consolidated public sector deficit is higher, partly due to the budget autonomy of state governments. However, the deficit is estimated to decline to 6.3 percent of GDP for 1994, because of a partial recovery in revenues and a return to the lower 1992 level of expenditures.

Money Growth and Inflation. The percentage change in broad money increased from 14.2 percent in 1992 to 19.1 percent in 1993. This increase in liquidity was particularly rapid in late 1993 and early 1994. Broad money has grown much faster than the government's targets, with little evidence of a slowdown. The net foreign asset position of the Reserve Bank improved, but not enough was done to offset the increase in liquidity in the economy. In the 1995 Budget, the government announced its intention to phase out the monetization of the fiscal deficit over a three year period.

Financial Reforms and the Banking System. Since 1991, the government has taken several measures to liberalize the financial sector. Financial institutions have more discretion over portfolio composition and the incentives for efficient use of funds have improved. Interest rate controls have been relaxed and access to capital markets has improved. Public sector banks are allowed to mobilize resources from the market and the Central Bank has set up guidelines for the entry of new commercial banks.

Trade. Export subsidies were cut, some quantitative restrictions on imports were eliminated, and tariffs were reduced, particularly for capital goods. Most consumer goods, however, remain on the *negative list*[1], thus providing a degree of protection for about 45% of the domestic manufacturing sector. By November 1992, the new trade policy initiatives had cut the trade-weighted nominal tariff rate from 75% to 56%. In industrial policy, the government has taken numerous measures which have effectively dismantled the previous system of controls and opened most areas of the economy to the private sector.

Exchange Rate Policies. As of March 1, 1993, the government adopted a single, market-determined exchange rate system. In August 1994, the following measures were introduced: a) The Foreign Currency Nonresident Account Scheme, which abolishes exchange rate guarantees; b) limits on foreign exchange allowances will be gradually lifted (by financial year 1996/97, the full amount of income earned during the year by nonresident Indian nationals and

[1] Items on the negative list can only be imported with a license.

overseas corporate bodies will be allowed to be transferred; and c) permission to transfer abroad accruing interest (as of October 1, 1994).

Investment and Growth. From 1986 to 1990, the Indian economy grew at an annual 6.3% rate. During the period of the adjustment program, however, real GDP growth fell to an estimated 3.0% pace (1990-92). From 1987 to 1992, the rates of gross domestic savings and fixed capital formation both increased by 2.5 percentage points of GDP. The *New Industrial Policy* announced in July 1991 liberalized the investment regime. India's foreign investment regime now compares well with those prevailing in those Asian countries that have been successful at attracting foreign investment.

Donor Involvement in India.

International Monetary Fund (IMF): India began a stabilization and reform program in 1991, supported by a Stand-by Agreement in the amount of 1.7 SDR billion. Nonobservance of two of the performance criteria blocked the fourth purchase under the Agreement in June 1992.

IBRD (World Bank): The Bank Group has lent a total of $36.3 billion as of March 1993. During the fiscal years 1987-91, the leading sector for funding was infrastructure (54%), followed by agriculture (16%), industry and finance (16%), and human resources development (10%). The funding strategy over the next several years will depend on progress with the stabilization and reform program.

Asian Development Bank (ADB): The ADB plans to provide $4.1 billion in lending for 17 projects during 1992-95. Energy is the leading sector (46%), followed by transport (28%), finance (13%), and industry (12%). Priorities are to ease infrastructure bottlenecks, encourage private sector involvement in major projects, and address environmental concerns in the energy sector. Several on-going projects report major delays in implementation.

United States Agency for International Development (USAID): Economic growth funds total approximately 28, 34, and 60 million dollars in 1994, 1995, and 1996, respectively. These resources will go towards the program for advancement of commercial technology (1994), the Center for Technology Development, technical assistance, agriculture commercialization, expansion of the housing finance system, reform and expansion of financial institutions, and small enterprise access to private capital markets (1996).

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Draft: Casey Delhotal, CDIE/ESDS, x32632
Cleared: Jim Walker, USAID/ANE/SEA/EA
JManarolla 12/15/94

India: Selected Economic Indicators, 1991-95

11/09/94	1991	1992	1993	Est. 1994	Proj. 1995
POPULATION (1)					
Millions	870	886	903	920	938
Growth Rate (%)	2.0	1.9	1.9	1.9	1.9
NATIONAL ACCOUNTS*					
Real GDP Growth Rate (%)	1.3	4.2	4.5	4.0	n.a.
Per Capita GNP (Atlas method) US$	330	340	350	360	n.a.
INVESTMENT & SAVINGS*					
Gross Domestic Investment/GDP (%)	24.0	25.0	23.4	24.6	n.a.
Private	12.4	12.5	11.5	13.0	n.a
Gross Domestic Savings/GDP(%)	21.7	20.7	21.7	23.4	n.a.
Private	21.1	20.7	21.0	20.4	n.a
PRICES					
CPI Annual Change (%) (2)	13.1	8.0	8.7	5.7	n.a.
EXCHANGE RATE [Rupees/US$]					
Market rate (period average) (3)	22.7	25.9	30.5	33.5	n.a.
Independently Floating Exchange Rate as of 3/93					
CENTRAL GOVERNMENT (% OF GDP)					
Total deficit/GDP	-6.0	-5.7	-7.4	-6.3	n.a.
Total Revenue (excluding grants)/GDP	11.2	10.8	9.8	10.2	n.a.
Total Expenditure/GDP	17.3	16.6	17.4	16.5	n.a.
Deficit financing, foreign	0.9	0.8	0.5	0.5	n.a
Deficit financing, domestic	5.1	5.0	6.9	5.8	n.a
MONEY					
Money, Percentage Change (M1)	23.6	7.3	21.4	n.a.	n.a
Broad Money, Percentage Change (M3)	19.4	14.2	19.1	n.a.	n.a.
Net Bank Domestic Credit, Percentage Change	11.0	13.3	12.1	n.a.	n.a.
BALANCE OF PAYMENTS [blns US$]*					
Current Account Balance	-2.6	-5.3	-4.2	n.a.	n.a.
Balance as % of GDP (%)	-0.8	-1.9	-1.6	n.a.	n.a.
Trade Balance	-2.1	-4.1	-3.4	n.a.	n.a.
Exports fob	18.2	18.8	20.9	n.a.	n.a.
Annual Percentage Change (%)	-1.4	3.1	11.3	n.a.	n.a.
Imports cif	20.3	22.9	24.3	n.a.	n.a.
Annual Percentage Change (%)	-27.1	12.5	6.0	n.a.	n.a.
Direct Investment	0.1	0.4	0.6	n.a.	n.a.
EXTERNAL DEBT [end of period]*					
Debt Outstanding, 3/31 [=end of FY] [blns $US]	69.0	71.0	77.3	81.5	n.a.
Debt Outstanding/GDP (%)	27.8	30.4	31.6	31.1	n.a.
Debt Service/Export Goods & Services (%)	29.6	26	27.3	31.90	32.7

*** = Data refers to the fiscal year. For example, data in the column for 1992 are for the year beginning April 1, 1992 and ending March 30, 1993.**
(1) Population data obtained from U.S. Bureau of Census
(2) End of period.
(2) As of March 31, 1993, the official and secondary market rates were unified. Data for 1991 and 1992 are for the official exchange rate.

Casey Delhotal, CDIE/ESDS, x3-2623
November 1994

INDONESIA ECONOMIC OVERVIEW
October 1994

Macroeconomic Setting. Indonesia has a population of 193 million with a GNP per capita of $730. The average annual population growth rate was 1.8 percent between 1985-1993 while GDP grew at an average 6.4 percent a year during the same period. From 1967 to 1992, Indonesia's incidence of absolute poverty was reduced from over 60 percent to 15 percent.

Successful economic management and sustained efforts in structural reforms enabled Indonesia to achieve the major objectives of the Fifth Five-Year Development Plan, which ended on March 31, 1994 (end of the fiscal year). In 1991/92, the adjustment program was marked by a tightening of monetary policy, and by 1992/93 excess demand pressures had abated. In 1993/1994, the focus of policy, especially monetary policy, shifted to supporting economic growth in response to concerns about a weakening of export performance and output.

Fiscal Policy. Indonesia's overall budget deficit is estimated to have declined from 4.2 percent of GDP in 1992 to 3.2 percent of GDP in 1993. Total expenditure and net lending were reduced from 22.7 percent of GDP in 1992 to 20.9 percent in 1993. In 1994, the budget aims for a small surplus, to be brought about by a projected increase in total revenue, due to higher non-oil tax revenues, and a further reduction in total expenditure and net lending to about 17 percent of GDP. Over four-fifths of the budgeted development expenditure would be channeled to the areas of transportation and tourism, electric power, agriculture and irrigation, education, health, and regional development.

Financial Reform and the Commercial Banking System. New prudential regulations were introduced in early 1991 to increase the stability of the banking system. These regulations included capital adequacy targets, rules for the maintenance of adequate liquidity, mandatory provisioning for non-performing assets and detailed monthly bank reports to Bank Indonesia, the central bank. In May 1993, Bank Indonesia introduced a package of measures aimed at relaxing the prudential controls that restrained bank lending, and at improving other bank regulations.

In July 1992, the Jakarta stock market was privatized. However, due to the sharp increase in stock prices in 1993, the Capital Market Supervisory Agency (BAPEPAM) set a maximum standard price/earning ratio of 13 for every new stock entering the market, later increased to 15 in 1994.

Inflation and Money Growth. Inflation accelerated in early 1994, with the monthly rate rising sharply to 1.25 percent during January-March. However, the annual increae in the consumer price index fell from 9.2 percent in 1993 to 7.5 percent in 1994. In 1993, the percentage change in broad money slowed to 15 percent (compared to 20 percent in 1992) and held relatively steady at 16 percent for 1994. Growth in narrow money remained fairly constant during 1992-94, within a range of 7-8.5 percent.

Balance of Payments. Due to the prudent financial policies and continued strong growth in non-petroleum exports, the 1992/93 balance of payments strengthened significantly, with the current account deficit falling to $2 billion. In 1993/94, the current account deficit is estimated to be \$2.2 billion. Indonesia's total external debt rose to \$90 billion in 1993, up from \$84 billion the previous year, but fell as a share of GDP from 67% to 64%.

Exchange Rate Policies. Indonesia follows a "managed float" exchange rate policy which is guided by external competitiveness considerations, and avoids excessive fluctuations vis-a-vis the U. S. dollar. Reflecting the increase in inflation in early 1993, the real effective exchange rate appreciated by 2.6 percent during 1993. Due to concerns over a slowdown in the growth of non-petroleum exports, nominal depreciation of the rupiah has been resumed since the beginning of 1994.

Donor Involvement in Indonesia.

International Monetary Fund (IMF): Indonesia does not currently have a program with the IMF.

IBRD (World Bank): As of September 30, 1992, Indonesia had received a total of 48 IDA credits worth \$9 billion, and 170 loans worth \$17 billion. The Bank's strategy in the 1990s is to support private sector growth through further structural reforms, invest in critical areas of human and physical infrastructure, and support a more aggressive approach to environmental management.

Asian Development Bank: For 1992-95, the ADB has planed 56 projects, totaling \$5.844 billion. The three objectives for these loans are the promotion of balanced regional development through a mix of projects in the Outer Islands, physical infrastructure projects to relieve bottlenecks that impede economic growth, and a balancing of traditional growth projects with those that address social and environmental concerns. For fiscal years 1992 and 1993 (the fiscal year ends on June 30), the ADB disbursed \$1.2 billion and \$1.5 billion, respectively.

United States Agency for International Development (USAID): Broad based economic growth resources will total approximately 15, 14, and 17 million US dollars in 1994, 1995, and 1996, respectively. Economic growth activities include: participant training (1994 & 1995), rural road maintenance (1994), agriculture and rural sector support, institutional development, municipal finance, agribusiness development, economic law and improved procurement systems (1995), and enhanced credit (1996).

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JManarolla 12/15/94

Indonesia: Selected Economic Indicators, 1992-95

11/29/94

	1992	1993	Est. 1994	Proj. 1995
NATIONAL ACCOUNTS				
Real GDP Growth Rate (%)	6.4	6.5	6.7	7.0
Per Capita GNP (Atlas method) US$	670	700	730	770
INVESTMENT & SAVINGS				
Gross Domestic Investment/GDP (%)	34.6	35.2	35.5	36.0
Private	n.a.	n.a.	n.a.	n.a.
Gross Domestic Savings/GDP (%)	37.3	38.0	38.7	40.4
Private	n.a.	n.a.	n.a.	n.a.
PRICES				
Consumer Price Index - Annual Change (%)	7.6	9.2	7.5	7.2
EXCHANGE RATE (Rp./US$) (period average)	2,030	2,087	2,160	2,230
Type: managed float				
CENTRAL GOVERNMENT (% OF GDP) (1)				
Total deficit/GDP	-4.2	-3.2	n.a.	n.a.
Total Revenue (excluding grants)/GDP	18.5	17.7	n.a.	n.a.
Total Expenditure/GDP	22.7	20.9	n.a.	n.a.
Deficit financing, foreign/GDP	3.3	2.4	n.a.	n.a.
Deficit financing, domestic/GDP	0.9	0.8	n.a.	n.a.
MONEY				
Money, Percentage Change (M1)	7.9	7.0	8.5	8.5
Broad Money, Percentage Change (M2)	20.2	15.3	16.0	16.5
BALANCE OF PAYMENTS [blns US$]				
Current Account Balance	-2.8	-2.0	-2.2	-2.0
Balance as % of GDP (%)	-2.2	-1.4	-1.3	-1.0
Trade Balance	7.0	8.2	8.8	9.3
Exports fob	33.8	36.6	40.3	44.3
Annual Percentage Change (%)	29.0	8.3	10.0	10.0
Imports cif	26.8	28.4	31.5	35.0
Annual Percentage Change (%)	7.8	6.0	11.0	11.0
Foreign Direct Investment	1.8	2.0	2.1	2.3
EXTERNAL DEBT				
Debt Outstanding, [blns US$]	84	90	95	98
Debt Outstanding/GDP (%)	67	64	60	55
Debt Service/Export Goods & Services (%)	32	30	28	24
POPULATION [mlns]	186	189	193	196
Growth Rate (%)	1.8	1.8	1.8	1.8

Source: International Monetary Fund, Asian Development Bank, and World Bank.

(1) Year corresponds to Indonesian fiscal year; e.g. 1994 = April 1, 1994 - March 30, 1995

Casey Delhotal, x3-2623
November 1994

ISRAEL ECONOMIC OVERVIEW
September 1994

Macroeconomic Setting. Israel, with a population of 5.3 million and a GNP of $72.2 billion in 1993, has a per capita GNP of $13,471. The Government of Israel (GOI) has been relatively successful in stabilizing the economy in the face of a massive inflow of immigrants which has increased the population by over 12 percent since the end of 1989. Real GDP growth averaged over 6 percent between 1990 and 1992, but slowed to 3.5 percent in 1993 due to a large contraction of the housing construction sector. Employment growth has ranged between 4 and 6 percent since 1991. The liberalized exchange system has improved export competitiveness. Inflation was reduced from around 18 percent in 1990 and 1991 to around 10 percent in 1992 and 1993, but it has since increased to 14 percent (see Table 1). Unemployment has declined to 8 percent, a level below that prevailing prior to the recent immigrant wave. GDP growth is projected to rise to 5.3 percent in 1994 and to an average or 6 percent in 1995 and 1996 due to a renewed increase in housing construction, following the sharp contraction in 1993, and continued rapid growth of exports.

In dealing with the inflow of immigrants, the GOI has appropriately adopted a strategy of abstaining from direct intervention in the labor market and has instead focused on providing the immigrants with housing and subsistence grants and training while encouraging a more favorable environment for the private sector investment and expansion. While government expenditures for immigrant absorption increased, fiscal discipline, including reduced housing and defense expenditures, provided for an overall reduction of general government spending as a percent of GDP. The central Government's domestic budget deficit (excluding net lending) was reduced from almost 5 percent of GDP in 1992 to 2.6 percent in 1993, exceeding the requirements of the 1991 Deficit Reduction law.

Israel presently enjoys the basic preconditions for high and sustainable medium-term economic growth. These include a skilled and rapidly growing labor force, an environment of greater macroeconomic stability, and an improved geopolitical situation. However, if these preconditions are to lead to higher economic growth, economic policy will need to be set in a medium-term framework that aims to: maintain economic stability; promote national savings; increase the flexibility of the economic system; and continue to fight against inflation.

Privatization Programs. The Government has accelerated the pace of privatization from the four nonbank enterprises privatized in 1992, with a total yield of NIS 650 million, to the privatization of 8-10 enterprises, yielding around NIS 2 billion in 1993. However, the progress in 1994 has been disappointing, due to a depressed stock market, labor problems and government reluctance to take on special interest groups. A sizable portion of the economy, which should more properly be in the private sector, remains under government control. Specifically, the Government is still the majority owner of 10 large corporations, which are responsible for the greater part of the activity in their sectors. A faster pace of privatization would be desirable not only to breathe more competitiveness into the economy, but also to provide increased investment opportunities to meet the institutional demands for good companies on the Tel Aviv Stock Exchange as well as to reduce the large outstanding stock of government debt; it is necessary to improve domestic economic efficiency and attract direct foreign investment.

Financial System. While extensive financial system reforms have been made, more reforms are needed to make the system more competitive. In May 1993, the Bank of Israel and the Ministry of Finance announced a banking sector reform proposal aimed at increasing the degree of competitiveness and reducing conflicts of interest in the Israeli financial system. The main elements of this reform, which is now being legislated, include: the spinning off of three smaller commercial banks from the three major banking groups that currently dominate the financial system; the sale of the Government's shares in the banks and the appointment of independent boards of directors to manage the banks in the period prior to their privatization; the establishment of corporate separateness between the commercial banks and the provident funds which they own; and the setting of a 25 percent limit, to be met within two to three years, on the equity stake in any nonfinancial corporation by an individual bank group. In addition to this proposal's potential to breathe life into Israel's financial system, Israeli authorities intend to continue using capital market liberalization to subject the domestic banking system more to the rigors of external competition.

Labor Markets. Continued improvement in the functioning of the labor market is essential for a sustainable reduction in unemployment. Over the past several years, the Israeli labor market has become more flexible partly as a result of the large immigrant wave. This flexibility has shown itself in a cumulative 6 percent decline in the average real wage since 1989, despite a significant increase in labor productivity over that period. Private sector wage negotiations are now conducted almost exclusively at the plant level, making wages more responsive to local labor market conditions. Additonal flexibility could be provided to specific sectors through adjustments to the minimum wage law, which in effect maintains the minimum wage at 45 percent of the average wage level, and through the severing of wage linkages, particularly between public enterprises and the public sector. More could also be done to improve the skills of the long-term unemployed through increased training.

Trade Liberalization. Further steps to liberalize external trade are essential to increase domestic competition. During the 1980s Israel substantially liberalized its trade within the context of its free trade agreements with the European Union and the United States. These efforts are now being supplemented by the recent elimination of Israel's 2 percent import surcharge and by a progressive unilateral liberalization of Israel's trade with "third countries," namely those in the Far East, Eastern Europe and Latin America. The initial phase of this latter liberalization program consisted of the replacement in 1991 of import quotas by equivalent tariffs on all products, other than agricultural goods, and the announcement of a scheduled reduction of tariffs aimed at reducing the tariff level to between 8 percent and 12 percent over a 5-7 year period. With the exception of wood and textile products, tariffs have been reduced as scheduled in September 1992 and September 1993.

Donor Involvement in Israel.

International Monetary Fund (IMF): The IMF approved a Compensatory and Contingency Financing Facility in March 1992 to offset the Gulf War related slump in exports of goods and services. Outstanding drawings from the facility amounted to SDR 179 million as of February 1993.

United States Agency for International Development (USAID): The USG provides Israel $1.2 billion in economic assistance (through USAID) and $1.8 billion in military assistance per year. In addition, USG loan guarantees of up to $2 billion per year for 5 years beginning 1993 are being administered by USAID.

Source:

International Monetary Fund, Israel-Selected Economic Issues and Statistical Appendix, May 6, 1994.

International Monetary Fund, Israel-Staff Report for the 1994 Article IV Consultation, April 14, 1994.

Israel EO produced by JGreen, ANE/SEA/EA, X3-2635.
Cleared: JWALKER
JManarolla 12/16/94

10/14/94

Israel: Selected Economic Indicators, 1989-94

	1989	1990	1991	1992	1993	1994
NATIONAL INCOME						
Real GDP Growth (% change)	1.7	5.8	6.2	6.6	3.5	5.3
INVESTMENT & SAVINGS						
Gross Dom. Investment/GDP (%)	18.0	16.0	19.0	24.0	24.0	N.A.
Gross National Savings/GDP (%)	16.1	16.9	17.5	20.0	20.3	N.A.
PRICES, EMPLOYMENT						
Consumer Price (% change,end-year)	20.7	17.6	18.0	9.4	11.3	14.0
Total Employment (% change)	3.2	2.1	6.1	4.2	6.1	4.4
Unemployment Rate (%)	8.9	9.6	10.6	11.2	10.0	8.0
EXCHANGE RATE						
Exchange Rate (Shekels Per $)	1.92	2.02	2.28	2.46	2.82	N.A.
MONEY						
Money Supply (M-2) Growth (%)	30.9	43.0	25.9	21.1	40.8	N.A.
BALANCE OF PAYMENTS ($ Billion)						
Current Account Balance	1.2	0.6	-0.3	0.1	-1.2	-0.8
Exports, f.o.b.	11.2	12.1	12.0	13.3	14.9	16.4
Imports, c.i.f.	12.9	15.1	17.0	18.3	20.4	21.7
Net Services	-2.0	-2.3	-2.1	-1.8	-2.5	-2.2
Net Transfers	4.9	5.7	6.4	6.0	6.8	6.7
Capital Account Balance	-1.1	-0.8	-0.8	-1.9	2.4	1.2
Overall Balance	1.4	0.5	N.A.	-1.3	1.2	0.4
DEBT						
Debt owed to USG** ($ Billion)	4.6	4.5	4.3	4.0	3.8	N.A.
Gross External Debt ($ Billion)	31.5	32.8	33.0	37.2	41.1	N.A.
As % of GDP	N.A.	64.7	56.9	53.3	55.8	54.6
Debt Service as % of Exports of Goods and Services	42	40	38	31	29	N.A.
PUBLIC SECTOR (% of GNP)						
Expenditure	59.8	58.9	58.3	56.4	56.8	N.A.
Revenue	53.6	54.9	54	54.1	53.2	N.A.
Overall Deficit (after Grants)	-6.2	-4.0	-4.3	-2.4	-3.6	-3.6
Domestic Component of Deficit	-8.1	-6.9	-7.1	-5.7	-5.5	N.A.
Foreign Component of Deficit	1.9	2.9	3.1	3.3	1.9	N.A.
SOCIAL INDICATORS						
Immigration (thousands)	12	188	176	77	77	100
Population Growth Rate	1.7	3.2	6.1	3.5	2.6	N.A.
Infant Mortality (per thousands live births)*	10.1	9.9	9.1	9.3	N.A.	N.A.
Gross Enrollment Ratio (total % schl. age pop.)*	93	95	N.A.	N.A.	N.A.	N.A.

Data obtained from the International Monetary Fund and the World Bank (*).

Information used in conjunction with the 1995 Israel PAAD

** For years ending June 30.

KGreen, ANE/SEA/EA

JORDAN ECONOMIC OVERVIEW
October 1994

Macroeconomic Overview. Situated in a politically volatile region, stability in and outside Jordan is always a major factor influencing the country's economic performance. Jordan's economy came under severe financial strain in the late 1980s when financial imbalances worsened as a result of expansionary demand management policies and long-standing structural weaknesses. Growth declined, inflation accelerated, and a major balance of payments crisis emerged, leading to intensification of payments and trade restrictions. The imbalances were further aggravated by the 1990 Gulf War.

Jordan's adjustment efforts since 1989, combined with large transfers of savings and workers' remittances flowing into Jordan subsequent to the Gulf War, led to a surge in economic activity in 1992. Real GDP grew 5.8 percent in 1993, and is expected to grow by 5.5 percent in 1994. Population growth had averaged 3.8 percent from 1980 to 1989; soared to 7.3 percent in 1990 and 11.8 percent in 1991 as a result of the Gulf War; and increased by 4.2 percent in 1992 and 3.4 percent in 1993. These developments were responsible for a sharp drop in per capita income, now a little more than $1,000. Unemployment peaked at 25 percent in the aftermath of the 1991 Gulf War, declined to 18.8 percent by the end of 1991 (six times greater than experienced during the 1980s), remained in the 15-20 percent range for 1992-93, then declined again in 1994. This decrease is attributed to labor absorption in the construction, manufacturing and tourism sectors.

Government revenues remained stable in 1993 and 1994 at around 32.5 percent of GDP. The overall deficit (excluding grants) increased from 3.7 percent of GDP in 1992 to 6.2 percent in 1993, but is projected to fall to 5.4 percent in 1994.

Inflation has been stable in the 4-5 percent range over the three-year period 1992-94. Gross domestic (dis)savings improved from -3.6 percent of GDP in 1992 to -2.2 percent in 1993, reflecting a slowing of private consumption associated with the resettlement of returnees. Total investment increased by over 8 percentage points during 1989-93 to 30.1 percent of GDP. This outcome reflects a sharp increases in the import of transportation equipment and machinery and equipment for the manufacturing, trade and service sectors.

Fiscal Policy. Fiscal policy in 1994 was supported by an IMF Extended Facility which aims to further consolidate the improvements recorded under the completed Stand-by Arrangement and enhance the quality of public expenditures. Authorities targeted a 1 percent reduction in the overall fiscal deficit (excluding foreign grants) for 1994, to 5.4 percent of GDP, and a further decline to 2.5 percent by 1998. Total budgeted government expenditure for 1994 is down by 1.4 percent, to 37.4 percent of GDP, even after allowing for a further significant growth in capital outlays on basic health and education infrastructure to accommodate the increasing population.

Tax reforms aim to enhance revenue elasticity and efficiency of the tax system. A General Sales Tax (GST) of 10 percent will be introduced at the manufacturing and import stage. An input tax credit, limited exemptions, and exemptions for business with turnover for claiming refunds, will also be introduced. Protective customs duties and supplementary excises will be synchronized with the GST. Tariffs plus surcharge for all non-luxury imported goods remained at 50 percent (flat rate) in 1993.

Financial Reform and the Commercial Banking System. The Central Bank of Jordan (CBJ) continues to depend on direct credit controls. Although commercial banks are free to set lending and deposit rates, interest rates remain inflexible and the spread between the lending and deposit rates widened. To rectify the situation, the CBJ intends to move toward indirect monetary control and develop monetary programming techniques by mid-1994.

Inflation and Money Growth. Monetary policy aims to contain the annual average inflation to 4-5 percent while liquidity is managed through the use of indirect instruments of monetary control. Expansion in money supply decelerated sharply during the first half of 1994.

Balance of Payments. The external current account deficit is projected to decline by an additional 3 percent, to 9.7 percent of GDP in 1994. Exports are projected to increase by nearly 17 percent, with nontraditional exports rising somewhat faster. Import growth decelerated in early 1994, following a surge in the final quarter of 1993; accordingly, for the year as a whole, import growth is projected to decelerate to under 3 percent.

The medium-term balance of payments outlook will remain sensitive to exogenous factors, including unfavorable shifts in the terms of trade, the degree of openness of the regional markets for exports of good and services, and, in light of the persisting and large debt overhang, the extent of debt relief that Jordan may obtain from official bilateral creditors.

Exchange Rate Policies. The GOJ remains committed to a flexible management of the exchange rate in order to maintain the competitiveness of exports, encourage efficient import substitution, and increase the Central Bank's gross foreign exchange reserves. The Jordanian dinar (JD) is pegged to a Special Drawing Rights (SDR) basket of currencies. The real exchange rate for the dinar remained broadly unchanged in 1993.

Investment and Growth. Real GDP grew at 5.8 percent in 1993, down from 11.2 percent in 1992. Medium-term GDP growth is predicated on substantial growth in manufacturing and nongovernment service-related activities. Realization of the growth target, 6.5 percent by 1998, will require an average investment to GDP ratio of approximately 27.5 percent, which is feasible given the 30 percent rate on average during 1992-93.

Donor Involvement in Jordan.

International Monetary Fund (IMF): The GOJ requested a three-year Extended Facility in and a program for SDR 127.8 million was approved in June 1994.

World Bank (IBRD): As of March 1994, Jordan had received 37 Bank loans and 15 IDA credits totalling $1,114 million net of cancellations and terminations. All the credits and 24 of the loans have been fully disbursed. The IFC has made loans and equity investments in

Jordan with total commitments of $104 million, including about $50 million in syndications.

The World Bank's primary objective is to move the GOJ towards sustainable growth and the restoration of credit worthiness. This is being achieved through a series of policy-based adjustment loans to support structural reforms in industry and trade ($150 million), energy ($80 million) and agriculture ($60 million).

United States Agency for International Development (USAID): Through the Sector Policy Reform Program (SPRP), USAID supports the GOJ in implementing a series of reform measures affecting the import and export process, export and investment incentives, business registration and licensing, corporate share pricing, and intellectual property rights. The reforms are being implemented in two stages. The GOJ has provided USAID with evidence that the reform measures are being taken, including decrees, resolutions, regulations, directives, instructions for changed operating procedures, etc.

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Drafted: JGreen; X3-2635.
Cleared: GBaker
JManarolla 12/16/94

10/14/94

Jordan: Selected Economic Indicators, 1989-94

	1989	1990	1991	1992	1993	Proj. 1994	Proj. 1995
NATIONAL INCOME							
Per Capita GNP at market prices	1,480	1,240	1,060	1,150	..	..	..
Real GDP Growth (% change)	-13.5	1.7	1.8	11.2	5.8	5.5	5.8
INVESTMENT & SAVINGS							
Gross Fixed Investment/GDP (%)	23.5	26.5	21.9	30.3	30.1	28.8	..
Gross National Savings/GDP (%)	-2.2	-16.3	1.4	-2.0	1.2	3.2	1.4
PRICES, EMPOYMENT							
Cost of Living Index (% change, end-year)	25.8	16.1	8.2	4.0	5.1	5.0	..
Unemployment Rate (%)	..	25.0	18.8	..	15-20	14.0	..
EXCHANGE RATE (Dinars/U.S.$)							
Offical Rate (period average)	1.75	1.51	1.47	1.47	1.44	..	..
MONEY							
Money Supply (M-2) Growth (%)	12.6	5.1	24.5	7.9	7.7	7.4	10.6
BALANCE of PAYMENTS (m. US$)							
Revenue	-104	-754	-712	-741	-650	-568	-492
Exports f.o.b.	1,110	1,064	1,132	1,220	1,248	1,457	1,592
Imports c.i.f.	-2,398	-2,732	-2,571	-3,339	-3,541	-3,635	-3,934
Net Service	555	493	543	873	1,268	1,209	1,503
Net Transfers	629	422	185	506	375	402	348
Capital Account Balance	-317	-362	-646	-449	-627	-183	-216
Overall Balance	-421	-760	-267	-488	-571	-601	-507
DEBT							
External Debt (m. US$)	6,412	7,591	6,872	6,625	6,658	6,915	..
As % of GDP	157	193	168	139	128	123	119
Debt Service as % of Exports of Goods and Services	38.8	45.7	41.9	36.1	35.0	24.0	24.0
PUBLIC SECTOR (% of GDP)							
Revenue	24.3	28.1	29.0	36.1	32.4	32.5	31.9
General Gov. Expenditure	45.2	45.8	46.8	39.9	38.6	37.9	36.2
Overall Deficit (Excluding Foreign Grants)	-21.0	-17.7	-17.8	-3.7	-6.2	-5.4	-4.4
Foreign Grants	13.1	11.2	8.9	4.1	4.6	3.9	3.4
Domestic Financing	0.7	-3.9	-2.2	3.1	0.2	..	0.1
Foreign Financing	3.9	8.1	0.9	1.4	4.1	-0.1	-0.3
SOCIAL INDICATORS							
Population Growth*	..	7.3	11.8	4.2	3.4	..	..
Infant Mortality (per thousand births)*	32.0	30.0	29.0	29.0	..	..	..
Literacy Rate*	..	20.0	..	..	..	..	..

Sources: Data obtained from the International Monetary Fund, August 1994.

*Data obtained from the World Bank, Spring 1994.

JGREEN, ANE/NE/DP X3-2635

LEBANON ECONOMIC OVERVIEW
August 1994

Macroeconomic Overview. In 1993, improved political stability, increased confidence, and an effective adjustment effort spurred favorable macroeconomic developments in Lebanon. Real GDP increased, inflation decelerated sharply, foreign exchange reserves were built up to a comfortable level, and the exchange rate stabilized. However, the lack of adequate infrastructure, a weak institutional framework, and shortages of human capital continued to constrain overall economic recovery. In 1993, Lebanon's economic and financial performance was favorable. Real GDP rose by an estimated 7 percent, compared with a target of 5 percent (and 4.5 percent in 1992), reflecting an intensification of construction activity and real estate development. Activity in the manufacturing and agricultural sectors remained subdued. Furthermore, the lack of adequate infrastructure, weakening of the institutional and legal framework, and shortages of human and physical capital continued to constrain overall economic activity.

Over the short-term, the Government of Lebanon (GOL) aims to consolidate the improvements in macroeconomic and financial stability achieved in 1993. Acceleration of the reconstruction program through investments is also planned. The GOL targeted real growth in GDP for 1994 at 7 percent with an increase in reconstruction investment in the second half of the year, a deceleration in the annual inflation rate to about 10 percent, a stable nominal exchange rate for the rest of the year, and a further buildup in foreign exchange reserves. Economic activity in the first quarter of 1994 was more buoyant than in the corresponding period of 1993, but has slowed in comparison with the last quarter of 1993-reflecting some stagnation in investment activity and exports.

Over the medium term, the GOL policy aims at achieving a real economic growth rate of about 8 percent per annum during 1995-98, a gradual decline in inflation and maintaining international reserves to enhance confidence in the domestic economy.

Fiscal Policy. Budget projections show an increase in the budget deficit to about 20 percent of GDP in 1995, before declining thereafter to about 6 percent by 1998. External public debt, which is currently at low levels, would increase to about 34 percent of GDP by 1998. During 1995-96, deficits would remain at very high levels. In addition, critical measures, such as the introduction of a general sales tax and phasing out the fuel subsidy, are deferred until 1997.

Inflation and Money Growth. The annual rate of change in consumer price increased in the first quarter of 1994, resulting from the upward adjustments in electricity and telephone tariffs. However, indications are that inflationary pressures eased in April-May reflecting the slowdown in economic activity. Inflation is projected to increase 10.6 percent in 1994 and 8.0 percent in 1995, down considerably from 1992 when the annual increase reached 131 percent. In the first quarter of 1994, total liquidity increased by 6.8 percent. This increase was accounted for by a sharp rise in claims on the private sector.

Balance of Payments. Exports are projected to increase by $825 million in 1994, up from a

1993 increase of $686 million. Imports are also projected to increase, reaching $5.0 billion. The current account deficit is expected to increase slightly to 3.3 percent of GDP in 1994, then increase further to 5.0 percent of GDP in 1995.

Exchange Rate Policies. Lebanon has an open economy and maintains an exchange system that is free of restrictions on payments and transfers from current international transactions. Given the turbulence and substantial volatility experienced by the pound during 1989-92, the large degree of openness of the economy, and the direct links between exchange rate movements and domestic inflation, the GOL believes that the exchange rate stability will lead to a reduction inflationary expectations and greater price stability.

Donor Involvement in Lebanon.

International Monetary Fund (IMF): Since late 1991 the IMF has been actively involved in Lebanon, providing policy advice and extensive technical assistance.

World Bank (IBRD): The Bank has provided advice on reconstruction needs and implementation capacity, as well as technical assistance, particularly in the areas of reform of the financial sector. Lebanon's disbursed and outstanding debt to the Bank amounted to US$37.96 million as of end-May 1994. Loans of US$57.23 million of the rehabilitation of agriculture and US$19.4 million for public sector management were approved in June 1994.

United States Agency for International Development (USAID): USAID assistance programs totaled $19.5 million in 1993. FY94 obligation are estimated at $8.0 million. Assistance is managed from USAID/Washington and is carried out primarily by private voluntary organizations (PVOs). USAID assistance has included humanitarian relief activities, food aid and support to American based educational institutions located in Lebanon. As the need for emergency relief programs have diminished, USAID emphasis is now shifting toward development oriented programming.

Sources.

International Monetary Fund, Lebanon-Economic Recovery, Stabilization, and Macroeconomic Policies, August 8, 1994.

International Monetary Fund, Lebanon-Staff Report for the 1994 Article IV Consultation, July 25, 1994.

Drafted: JGreen, X3-2635 ANE/SEA/EA
Cleared: GBaker
JManarolla, 12/23/94

Lebanon: Selected Economic Indicators, 1989-95

08/22/94	1989	1990	1991	1992	Est. 1993	Proj. 1994	Scenario 1995
NATIONAL INCOME							
Per Capita GNP (Atlas method)*	819.9	818.9	1,290.2	1,612.2	..	..	..
Real GDP Growth (% change)	-42.2	-13.4	38.2	4.5	7.0	7.0	8.0
U.S. LOANS & GRANTS							
Loans	..	..	..	..	..	..	..
Grants	15.1	19.0	19.2	16.4	19.5	..	..
INVESTMENT & SAVINGS							
Gross Dom. Investment/GDP (%)	29.8	17.8	17.8	19.3	19.7	..	..
Gross Dom.Savings/GDP (%)*	..	-46.4	-45.0	-35.2	-25.3	-14.9	..
PRICES, EMPLOYMENT							
Consumer Price Index (end-year)	89.0	84.1	31.3	131.0	29.1	10.6	8.0
Unemployment	..	..	35.0	..	..	..	..
EXCHANGE RATE (Lebanese pound/U.S.$)							
Market Rate (end of period average)	474.0	790.0	879.0	1,851.0	1,711.0	1,690.0	..
MONEY							
Money Supply (M-2) Growth (%)	47.8	13.1	55.5	43.9	114.1	18.4	..
BALANCE of PAYMENTS (m. U.S.$)							
Current account Balance	-785	-1,351	-2,935	-3,053	-3,417	-3,944	-5,086
Exports f.o.b.	484	496	490	601	686	825	965
Imports f.o.b.	-2263	-2,578	-3,748	-3,770	-4,222	-5,039	-6,430
Service	514	451	143	-84	181	-50	30
Transfers	480	280	180	200	300	320	350
Capital Account Balance	476	920	4,009	3,107	4,587	4,584	5,617
Overall Balance	-309	-431	1,074	54	1,170	640	531
DEBT							
Gross External Debt (m. U.S. $)	517	544	576	556	616	1096	..
Outstanding Debt as % of GDP	19.0	19.2	12.9	10.0	8.3	13.0	..
Debt Service as % of Exports	19.0	17.7	18.3	14.9	12.1	10.4	..
PUBLIC SECTOR (% of GDP)							
Government Expenditures	39.1	39.4	28.9	23.9	23.3	34.0	38.0
Revenue	4.7	6.4	12.6	11.1	14.0	16.7	18.0
Current Account Deficit	-31.9	-31.4	-12.4	-10.7	-7.6	-3.3	-5.0
Overall Deficit	-34.4	-33.0	-16.3	-12.2	-8.4	-17.8	-20.0
Domestic Financing	34.5	33.0	16.0	11.0	7.0	10.0	8.0
Foreign Financing	..	..	..	..	1.0	8.0	12.0
SOCIAL INDICATORS (%)							
Population Growth Rate*	2	2	2	2	..	..	..
Infant Mortality (per 1,000 live births)*	38	36	35	34	..	..	..
Illiteracy Rate*	..	20	..	..	..	..	..

Data obtained from the International Monetary Fund.
*Data obtained from the World Bank.
ANE/SEA/EA: JGREEN

MONGOLIA ECONOMIC OVERVIEW

December 22, 1994

Macroeconomic Setting. Mongolia has a population of 2.4 million with a per capita GNP of \$270. The population growth rate between 1985-93 was 2.8 percent annually. The government estimates that in May 1993, 25 percent of the population lived below the poverty line. GDP growth rates have been -9.9 percent, -7.6 percent, and -1.4 percent in 1991, 1992, and 1993, respectively. While most of the physical capital stock is technically outdated, poorly maintained, and economically inappropriate, Mongolia's human capital profile is better than many poor country's. Adult literacy is estimated at 93 percent and female enrollments exceed male enrollments in every level including the tertiary level.

To transform Mongolia from a centrally planned economy to a market-oriented one, the government instituted a reform program in 1990 to implement basic structural changes in the economy, including privatization of state enterprises, tax reform, financial sector reform and liberalization of trade and exchange rate policies. The transition has been made more difficult by the breakdown in the Council for Mutual Economic Assistance (CMEA) trading system which occurred after the dissolution of the USSR. Current reforms focus on the commercialization of the remaining public enterprises, removal of remaining administrative restrictions that impede market forces, the development of a legal and institutional framework that facilitates equity transactions and property ownership, and the encouragement of foreign private investment.

Fiscal Policy. The government is facing declining international copper prices and a projected rise in consumer prices in 1994. Revenue is projected to be 28 percent of GDP, well above the original program target, but 2 percentage points lower than in 1993. Current expenditure is projected to be 48.8 percent of GDP, 4 percentage points higher than in 1993. Mongolia's overall deficit is 13.4 percent of GDP. Subsidies and transfers are being contained. Public investment is projected to increase to 24 percent of GDP.

Financial Reform and the Commercial Banking System. Throughout 1991-93, Mongolia's reform of the banking system included the formation of a two-tier banking system with a central bank, the Bank of Mongolia, created by reorganizing key departments in the former State Bank, and the enactment of banking laws regulating reserves, clearing and settlement, and bank supervision. Portfolios held by banks remain weak, with problems including an excess of loans over deposit liabilities, a high sectoral concentration of loans, a low level of liquid assets relative to total assets, a dominance of large state enterprises in the loan and deposit portfolios and a large amount of uncovered foreign exchange liabilities.

Inflation and Money Growth. Inflation reached 321% annually by the end of 1992, but the monthly rate of increase in consumer prices had slowed to less than 2% by May 1993. The inflation problems were the result of price adjustments and accommodating monetary policy, which allowed the rapid growth of credit to both the government and state-owned enterprises. During the first quarter of 1993, despite cautious monetary and interest rate policies, domestic credit grew by 52% over the previous year. The annual rate of inflation for 1993 was 183 percent, slightly below the government's target. In 1994, the annual change in the consumer price index (CPI) was 54.1 percent.

Balance of Payments. Despite a terms of trade decline due to low world copper prices, Mongolia's external current account deficit in 1993 was 6.8 percent of GDP, well below the programmed target. Export volume growth exceeded the target due to the strong performance of goods such as cashmere. Import volume growth was less than expected partially due to weak demand as a result of exchange rate depreciation. In 1994, the external current account deficit is projected to increase to 8.1 percent of GDP.

Exchange Rate Policies. In March 1992 the government of Mongolia unified the barter and official exchange rates at Tug 40 per U.S. dollar. In May 1993, after the exchange rate in the parallel market for foreign exchange diverged substantially from the official rate, Mongolia unified the two rates at a market-determined level of about Tug 400 per U.S. dollar and established an interbank market for foreign exchange. Since the adoption of a floating exchange regime, the exchange rate has remained relatively stable at Tug 380-400 per U.S. dollar.

Investment and Growth. After four years of decline, the growth of real GDP in 1994 is positive. Real GDP is projected to grow at 2.5 percent and 3.5 percent in 1994 and 1995, respectively. By 1995, gross domestic investment as a percentage of GDP is projected to reach 23.7 percent. Gross domestic savings as a percent of GDP is projected to increase to 13.3 percent in response to increasing household incomes, higher business profits, and positive real interest rates.

Donor Involvement in Mongolia.

International Monetary Fund (IMF): Mongolia joined the Fund on February 14, 1991. An IMF standby arrangement worth $30.7 million was approved on October 4, 1991. On June 25, 1993 an enhanced structural adjustment facility (ESAF) was also approved.

IBRD (World Bank): Mongolia also joined the World Bank Group on February 14, 1991. Two International Development Association (IDA) operations were approved in December 1991: a $5 million Technical Assistance Project and a $30 million Economic Rehabilitation Project. An IDA $20 million Economic Transition Support Project was approved in October 1993 to help finance imports and pay for technical assistance in the mining and transportation sectors.

Asian Development Bank (ADB): The ADB provided $102.8 million in lending for five projects in 1992-93. The loan pipeline for 1994-97 focusses on investments that will assist Mongolia in accelerating its economic transformation process, with projects in the energy, agriculture, industry, transportation and telecommunications sectors.

United States Agency for International Development (USAID): Broad based economic growth resources will total 10, 10, and 3 million US dollars in 1994, 1995, and 1996, respectively. These resources will go towards the energy sector (1994 & 1995), an economic policy support project, and project development and support (1994).

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Draft: Casey Delhotal, CDIE/ESDS, x32632
Cleared: Greg Baker, USAID/ANE/SEA/EA
JManarolla 12/19/94

Mongolia: Selected Economic Indicators, 1992-95

11/29/94	1992	1993	Est. 1994	Proj. 1995
NATIONAL ACCOUNTS				
Real GDP Growth Rate (%)	-7.6	-1.3	2.5	3.5
Per Capita GNP (Atlas method) US$	270	270	270	280
INVESTMENT & SAVINGS				
Gross Domestic Investment/GDP (%)	12.4	20.0	20.9	23.7
Private	n.a.	n.a.	n.a.	n.a.
Gross Domestic Savings/GDP (%)	3.0	12.2	12.8	13.3
Private	n.a.	n.a.	n.a.	n.a.
PRICES				
CPI Annual Change (%) (End of Period)	321.0	195.5	54.1	16.8
EXCHANGE RATE (Tug/U.S.$)	40.0	400.0	n.a.	n.a.
Independently floating, as of May 1993				
CENTRAL GOVERNMENT (% OF GDP)				
Total deficit/GDP	-12.7	-14.6	-13.4	-13.0
Total Revenue (excluding grants)/GDP	30.0	30.2	28.0	28.7
Total Expenditure/GDP	42.7	44.8	48.8	41.7
Deficit financing, foreign/GDP	11.2	15.5	22.3	n.a.
Deficit financing, domestic/GDP	1.5	-0.9	-1.3	n.a.
MONEY				
Money, Percentage Change (M1)	4.5	142.7	137.9	30.0
Broad Money, Percentage Change (M2)	31.7	227.6	107.2	32.9
BALANCE OF PAYMENTS [mlns US$]				
Current Account Balance	-90.7	-39.9	-59.3	-92.7
Balance as % of GDP (%)	-6.7	-6.8	-8.1	-10.4
Trade Balance	-62.6	-6.7	-18.7	-47.3
Exports fob	355.8	356.9	363.3	384.4
Annual Percentage Change (%)	2.7	0.3	1.8	5.8
Imports cif (1)	418.4	374.5	382.0	431.7
Annual Percentage Change (%)	-14.0	-10.5	2.0	13.0
Foreign Direct Investment	2.0	7.7	6.0	6.0
EXTERNAL DEBT				
Debt Outstanding [mlns US$]	297.7	395.5	477.6	561.5
Debt Outstanding/GDP (%)	27.6	60.5	65.2	63.2
Debt Service/Export Goods & Services (%)	16.4	10.6	14.4	13.8
POPULATION [mlns]	2.3	2.4	2.4	2.5
Growth Rate (%)	2.1	2.1	2.1	2.1

Source: International Monetary Fund, World Bank, and Asian Development Bank.

(1) Includes goods and labor services; disaggregated data not available.

Casey Delhotal, x3-2623

November 1994

MOROCCO ECONOMIC OVERVIEW
August 1994

Macroeconomic Overview. The Moroccan economy was buffeted by three major adverse exogenous factors in 1993: continued drought; weak demand for Moroccan exports; and further deterioration of the terms of trade. In response, the Government of Morocco (GOM) implemented reforms aimed at further opening the economy and improving resource allocation. In addition, efforts to strengthen the financial systems, improve financial intermediation, and widen the scope for private sector activity were intensified. With the completion of Moroccan elections and the end of the drought, the GOM has an opportunity in 1994 to limit spending by allocating resources toward high priority sectors like education and health; decrease and better target subsidies; and better utilize resources to promote private sector growth.

Morocco's real GDP growth is expected to reach 9 percent in 1994, as the agricultural sector recovers from two years of drought. The external current account, including transfers, is to be narrowed to 2.3 percent of GDP through improvement in the food trade balance and an increase in the export of phosphate products and manufactured goods.

Fiscal Policy. Fiscal policy in 1994 will focus on the reduction of inflationary pressures and the release of additional financial resources to the private sector. The government budget deficit is projected, excluding grants, at 1.5 percent of GDP 1994, down from 2.7 percent in 1993. Revenue measures to encourage investment and efforts to streamline the tax system in 1994 are included in the budget. Given the considerable tax reforms undertaken in the past years, the GOM aims to increase the efficiency and equity of the tax system, curb tax evasion, and increase tax compliance. In 1994, corporate tax rates will be lowered to 36 percent while the maximum personal income tax rate will be lowered to 46 percent. Expenditures are to be controlled through limited government expenditure increases while increasing allocations for the social sectors.

Financial Reform and the Commercial Banking System. The freeing up of interest rates, begun in 1992, was not fully completed by the end of 1993. Lending rate reforms did not succeed in lowering lending rates and investment failed to increase.

Inflation and Money Growth. The GOM's objective is to reduce the consumer price inflation to 5 percent, down from a five-year high of 8 percent in 1991. Domestic liquidity is targeted to grow between 8 and 10 percent in 1994.

Balance of Payments. The current account balance is projected to increase in 1994 to 493 million SDR, up from 483 million SDR in 1993. Exports are expected to increase, with the largest growth expected in agricultural products. Imports are also expected to increase to 5.6 billion SDR in 1994, leaving an estimated overall balance of 271 million SDR, slightly lower deficit than the previous year (287 million SDR).

Exchange Rate Policies. The GOM will follow a restrained monetary policy in view of the appreciation of the nominal effective exchange rate, which is based on a limited basket of currencies. Reforms in 1994 will focus on moving toward full convertibility. Specifically, the

GOM will work toward the liberalization and deepening of the domestic capital market and the establishment of an interbank foreign exchange market, within which market forces will be given a greater role in exchange rate determination.

Investment and Growth. Efforts to generate a higher and sustainable rate of economic growth, sufficient to absorb excess liquidity without squeezing out the private sector, are needed. To improve growth in the private sector, capital expenditures are budgeted to increase by 18.4 percent in 1994. Gross domestic investment is projected to decrease from a 1993 level of 23.1 percent of GDP to 22.2 percent of GDP in 1994.

Donor Involvement in Morocco.

International Monetary Fund (IMF): Morocco's long-standing relationship with the IMF has included seven stand-by arrangements beginning in the early 1980s. The latest stand-by was completed successfully in March 1993. Parallel to Morocco's expected "graduation" from rescheduling, no further recourse to Fund resources is planned.

World Bank (IBRD): New IBRD loan commitments have averaged $470 million since 1988. Cumulative commitments, net of repayments, amount to $4.6 billion, of which approximately $1.4 billion remain undisbursed. The World Bank intends to continue supporting Morocco's overall program of liberalization and reform, although a second Structural Adjustment Loan (SAL II) and a Financial Sector Development Project (FSDP) are expected to be the Bank's final adjustment operations. The Bank's assistance in FY94-98 has shifted to an investment-based lending program. During the next four years, the primary focus will be on private sector development, social sector improvements, public sector management and environmental and water resource management.

United States Agency for International Development (USAID): USAID/Rabat supports the GOM through the Privatization Sector Assistance Program, a $25 million program designed to motivate the GOM to move expeditiously on implementing its privatization program. If all conditions are met prior to the release of the third tranche, 28 privatization transactions will have been fully completed. Other conditions require broadening share ownership among the general public, and assuring transparency in the process through the proper flow of information to the public.

Also, the $8.6 million Economic Policy Analysis Project aims to strengthen GOM capabilities in the development, appraisal and implementation of market-oriented economic policies. The project has produced significant results. A study on stock exchange reform resulted in changes in a draft law which included making the Casablanca stock exchange a private, self-governing entity. In addition, the project supported the establishment of a secondary debt market for short-term Treasury bills, a precursor to establishing open market operations by the Central Bank.

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Morocco: Selected Economic Indicators, 1989-94

08/16/94	1989	1990	1991	1992	Est. 1993	Proj. 1994
NATIONAL INCOME						
Per Capita GDP (US$)	954	1,060	1,109	1112	1046	..
Real GDP Growth (% change)*	6.4	10.2	13.0	0.3	4.7	9.0
INVESTMENT & SAVINGS						
Gross Dom. Investment/GDP (%)	23.7	25.0	22.8	23.0	23.1	22.2
Gross National Savings/GDP (%)	20.5	24.7	21.7	21.8	21.5	20.2
PRICES, EMPLOYMENT						
Consumer Price Index (% change)	3.1	7.0	8.0	5.7	5.2	5.0
Total Employment (% change)	27.2	27.5	27.4	27.1	..	..
Unemployment Rate (%)	15.9	15.4	17.3	16.0	..	..
EXCHANGE RATE (Moroccan Dirhams/U.S.$)						
Market Rate (period average)	8.49	8.24	8.71	8.54	9.38	..
Dirhams per SDR	10.88	11.18	11.91	12.44	13.31	..
MONEY						
Money Supply (M-2) Growth (%)	11.8	18.5	16.8	9.3	8.2	8.5
BALANCE of PAYMENTS (m. SDR)						
Current Account Balance	-829	-453	-464	-437	-483	-493
Exports f.o.b.	2,598	3,117	3,127	2,991	3,305	3,637
Imports c.i.f.	-3,897	-4,630	-4,571	-4,845	-5,126	-5,621
Capital Account Balance	802	191	308	..	..	..
Overall Balance (after debt relief)	54	1,325	88	886	284	271
DEBT						
Gross External Debt (million of $)	20,755	20,539	21,073	..	..	..
Debt Service as % of Exports of Goods and Services	53.5	44.7	40.0	32.7	28.6	24.4
PUBLIC SECTOR (% of GDP)						
General Gov. Expenditure	28.6	27.3	25.9	27.3	26.0	25.0
Revenue	22.6	23.8	22.9	25.6	28.4	24.8
Overall Deficit (Excluding Grants)	-6.0	-3.5	-3.1	-2.2	-2.7	-1.5
Domestic Financing	2.1	-1.5	-0.1	1.2	0.9	1.6
Foreign Financing (net)	1.7	4.5	2.0	0.1	0.1	-0.9
SOCIAL INDICATORS						
Population Growth Rate	2.3	2.2	2.2	..	..	..
Infant Mortality Rate (per 1000 live births)*	69	67	57	..	..	..
Literacy Rate	33	..	..	..	..	..
Primary Net Enroll. %*	..	55.0	..	..	..	..
Government Expenditure on Education (% of GDP)	..	..	5.1	5.0	5.4	5.6
Government Expenditure on Health (% of GDP)	..	..	0.9	0.9	0.9	1.0

Source: Data obtained from the International Monetary Fund.
*Data obtained from the World Bank.

JGREEN/ANE/SEA/EA

NEPAL ECONOMIC OVERVIEW

November 1994

Macroeconomic Setting. Nepal has a population of 20.5 million that is growing at an annual rate of 2.4 percent. Per capita GNP is $200. The growth rate of real GDP in 1993 was 6.2 percent and it is estimated at 4.5 percent for 1994. Nepal's most significant development problems include a limited resource base, rapid population growth, and environmental degradation.

Nepal has recently elected the United Marxist Leninist Party (UML) to power. The party platform envisages an end to the Feudal Land Ownership system, modernization of agriculture, forest conservation, the end of corruption, the end of foreign monopolistic capital, literacy to all as a right, development of a transportation network, inexpensive health services to all, equality for men and women, and rights for laborers. Specific details of how to accomplish these goals have not been stated.

Fiscal Policy. The new government realizes it must reform the tax system in order to sustain the current level of government revenue, but is unclear how to do it. Although government revenues have increased from 9.8 percent of GDP in 1991 to 11.2 percent in 1994, they still only cover half of total expenditures. Domestic financing of the large 1994 deficit (almost 11 percent of GDP) increased to 3.3 percent of GDP in 1994, up from 3 percent in 1993, with the major share both years being financed externally.

Energy Sector. The Khimti Hydro-Power Project has been approved by the government. Himal Power Ltd., a private joint venture between the Butwal Power Company and three Norwegian institutions, will bear 28 percent of the cost, while the Asian Development Bank, the International Finance Corporation, and the Norwegian aid agency (NORAD) will bear the rest. Electricity charges have been increased from 70 to 500 percent since March 14.

Inflation and Money Growth. Under the enhanced structural adjustment facility (ESAF) program adopted in 1992, the rate of inflation is expected to decline to 5.0% in 1994. In early 1992, the former government implemented a tighter monetary policy by selling national savings certificates, increasing the auction of treasury bills, and imposing a temporary 24% statutory liquidity requirement against rupee deposits. By July 1993, the annual rate of inflation had eased to 6%, although summer floods temporarily raised the rate to 9.0% in September. Nepal Rastra Bank figures show that the national consumer price index increased by 9.6 percent in the first six months of FY93/94 (the fiscal year ending July 15) compared to 6.8 percent in the same period of FY92/93. Price increases have led the new government to consider policies of administered prices and rationing of essential goods (*e.g.* energy and agricultural commodities).

Financial Reform and the Commercial Banking System. The former government permitted the establishment of more private enterprises and steered the state sector toward a market orientation. Three new private banks have begun operations this year, with three more applying for licenses. Several nonbank financial intermediaries have also begun to operate. The two state-owned commercial banks (one is 49%-privately owned) have recorded mixed success in their efforts to eliminate chronic losses by trimming operating expenses and recovering unpaid loans. Rural loan portfolios are a drain on the state-owned bank resources. The new government also supports the gradual removal of the rural lending burden from the state-owned banks to institutions which are modeled on the Grameen Bank approach but would not rely on government or donor subsidies. Sustainability is a question.

Balance of Payments. The current account deficit narrowed in 1992 to an estimated 8.6% of GDP as exports rose sharply, but is projected to widen to 10.8% by 1994. Lower import duties and non-tariff barriers are the leading causes of the expected widening. However, the new government has indicated it wants to increase exports by repealing the 2 percent export tax. By end-1993, Nepal's medium- and long-term external debt was $1.9 billion, or 64 percent of GDP. The predominately concessional nature of the loans results in a relatively modest debt-service burden.

Exchange Rate Policies. On February 12, 1993, the former government made the rupee fully convertible on the trade account, but maintained mildly-restrictive controls on the investment account. In addition to eliminating the dual exchange on the import side, the policy change meant that exporters would receive their sales receipts in rupees at the free market rate. The former government eliminated nearly all quantitative restrictions on imports, permitted Nepalese to hold foreign exchange accounts, and increased the amounts available for foreign travel, marketing, and industrial development activities. Foreign investors may convert investments and profits at the free market rate.

Donor Involvement in Nepal.

International Monetary Fund (IMF): In October 1992, Nepal and the IMF agreed to terms on a three-year arrangement under the enhanced structural adjustment facility (ESAF). The total amount of the loans available is $47 million.

IBRD (World Bank): Through the end of October 1992, the **IDA** had approved a cumulative total of 61 credits to Nepal, equal to $1.3 billion. Agriculture has garnered the largest share (approximately 34%), followed by energy (21%), communications and highways (14%), urban infrastructure and water supply (11%), education and technical assistance (10%), structural adjustment (9%), and industry (2%). In FY 91 and FY 92, the disbursement level to Nepal fell sharply to an average $53.5 million. No **IBRD** loans have been made to Nepal.

Asian Development Bank (ADB): For the 1992-95 period, the ADB plans funding for fifteen projects totalling $600 million. The leading sector is energy (44% of the total), followed by agriculture (21%), social infrastructure (17%), and industry (14%).

United States Agency for International Development (USAID): Broad based economic growth resources will total approximately 10, 12, and 11 million US dollars in 1994, 1995, and 1996, respectively. The 1994 and 1995 resources will go towards projects involving development training, economic liberalization, sustainable income and rural enterprise projects, and basic education support.

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Nepal: Selected Economic Indicators, 1991-95

11/09/94

	1991	1992	1993	Est. 1994	Proj. 1995
POPULATION (1)*					
Millions	19.6	20.0	20.5	21.0	21.5
Growth Rate (%)	2.5	2.2	2.4	2.4	2.4
NATIONAL ACCOUNTS*					
Real GDP Growth Rate (%)	3.1	5.1	6.2	4.5	n.a.
Per Capita GNP (Atlas method) US$	180.0	190.0	190.0	200.0	n.a.
INVESTMENT & SAVINGS*					
Gross Dom. Investment/GDP(%)	17.1	19.2	22.1	23.3	n.a.
Private	10.0	12.0	8.9	9.7	n.a.
Gross Domestic Savings/GDP(%)	7.9	9.7	10.0	9.9	n.a.
Private	9.5	9.9	9.4	9.0	n.a.
PRICES					
CPI Annual Change (%) (2)	15.5	9.0	6.0	5.0	n.a.
EXCHANGE RATE [Nepali Rupees/US$] (3)					
Market rate (period average)	37.3	42.7	47.6	51.5	n.a.
Pegged to a Currency Basket as of 2/93					
CENTRAL GOVERNMENT (% OF GDP)					
Total deficit/GDP	10.4	10.1	10.2	10.7	n.a.
Total Revenue (excluding grants)/GDP	9.8	10.1	10.8	11.2	n.a.
Total Expenditure/GDP	20.2	20.2	21.1	21.6	n.a.
Deficit financing, foreign	8.8	7.3	7.2	7.4	n.a.
Deficit financing, domestic	1.5	2.8	3.0	3.3	n.a.
MONEY					
Money, Percentage Change (M1)	24.0	27.3	23.0	n.a.	n.a.
Broad Money, Percentage Change (M3)	22.7	24.6	21.0	n.a.	n.a.
BALANCE OF PAYMENTS [blns US$]*					
Current Account Balance	-0.30	-0.25	-0.31	-0.38	n.a.
Balance as % of GDP (%)	-9.9	-8.6	-9.7	-10.8	n.a.
Trade Balance	-0.52	-0.53	-0.49	-0.57	n.a.
Exports fob	0.27	0.37	0.43	0.48	n.a.
Annual Percentage Change (%)	26.0	34.1	15.5	13.9	n.a.
Imports cif	0.79	0.89	0.92	1.05	n.a.
Annual Percentage Change (%)	3.8	12.6	2.7	14.5	n.a.
Direct Investment	n.a.	n.a.	n.a.	n.a.	n.a.
EXTERNAL DEBT					
Debt Outstanding, 7/15 [blns US$]	1.6	1.8	1.9	2.1	n.a.
Debt Outstanding/GDP (%)	50.4	61.7	63.8	64.8	n.a.
Debt Service/Exports Goods & Services (%)	14.1	11.0	9.4	9.7	n.a.

sources: IMF International Financial Statistics, IMF Staff Estimates, and Government of Nepal.

*** = Data refers to the Nepali fiscal year, which runs from July 16-July 15. For example, data in column for 1992, refers to fiscal year 1992/93.**

(1) Population data obtained from U.S. Bureau of Census

(2) Period Average

(3) Data for 1991 and 1992 are for the official exchange rate.

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November 1994

OMAN ECONOMIC OVERVIEW
November 1994

Macroeconomic Overview. Oman's real GDP growth in 1991 was at 7.5 percent. Real non-oil GDP increased by 10 percent in 1992, compared to an average rate of 3.4 percent during the 1987-91 period. Oman's GDP per capita in 1991 was $6,500, earning it a ranking by the World Bank as an upper middle income economy. Oman continued to record high growth rates over 1992-93, with real non-oil GDP expanding by 7-8 percent annually, and oil production rising on average by 5 percent. Its population currently stands at 1.6 million, with a projected growth rate of 3.9 percent from 1991 to 2000, down only 0.4 percent from the preceding ten years. Oman's external policies of open trade and payments have benefited the economy while the depreciation of the Omani rial in recent years has increased competitiveness.

Fiscal Policy. In 1992, Oman's fiscal position weakened with an overall budget deficit equal to 3.2 percent of GDP, due mainly to poor expenditure control. To improve its fiscal position, the IMF recommended that the Government of Oman (GOO) tax wholly Omani-owned companies (which are exempt from income taxation), luxury goods and real estate sales. Customs duties constitute the largest component of tax revenues. Non-tax revenues are generated from natural gas receipts, interest earnings from the government, local investment, and income from public services and utilities. Given the fiscal deterioration in 1993 and the prospects for continued weak oil prices in 1994, meaning low oil revenue, the budget targets an aggregate spending reduction of 8 percent.

Financial Reform and the Commercial Banking System. The Central Bank of Oman (CBO) expects to introduce a deposit insurance scheme before end-1994. The CBO mandated an increase in the minimum capital requirement in April 1992, which was intended to generally strengthen the banking system and to encourage the merger of locally incorporated banks possessing weak capital positions with strongly capitalized local banks. Strengthening of regulations regarding bank lending and credit have also been adopted.

Balance of Payments. Shifts in the balance of payments are dominated by developments in oil export earnings and in government policies regarding budget expenditures, foreign borrowing and the management of foreign assets. Budget expenditures account for approximately half of GDP and are the major factor determining the behavior of domestic demand and the demand for imports. Over 1990-93, oil export earnings on average accounted for 95 percent of total export receipts, while imports and outward worker remittances and transfers amounted to approximately 60 percent and 20 percent, respectively, of current external payments. Over the same period, non-oil exports of domestic origin accounted on average for only 5 percent of total export earnings. Although, non-oil exports are limited (comprising mostly food and live animals, textiles and base metals), they exhibited strong growth of 15-27 percent annually. Re-exports, mainly machinery and transport equipment to and from other Arab countries, increased 25 percent in 1993. Total imports, excluding re-exports, have grown considerably between 1990-93. Import volume rose on average by about 10 percent annually, which was roughly in line with the growth on real non-oil GDP. Imports excluding re-exports were comprised largely of manufactured goods and of machinery and transport equipment which together accounted on average for about 55 percent of total recorded imports.

In 1993 the sharp decline in oil prices and the continued growth of current external payments led to a widening of the current account deficit to 7 percent of GDP, which was accompanied by considerable weakening of the capital account position.

Inflation and Monetary Growth. Inflation remains moderate, reflecting increases in import prices. Monetary developments in Oman reflect the effect of oil prices and government expenditure on the budget and on the balance of payments, along with the impact of government spending growth on non-oil sector activity and private credit growth. Domestic liquidity rose only moderately by 1.8 percent in the first quarter of 1994 and 3 percent annually over 1992-93.

Exchange Rate Policies. The Omani Rial (OR) was pegged to the US dollar in 1974. In January 1986, the exchange rate was devalued to OR 1 = US$2.6 and has been kept constant up through the present (May 31, 1994).

Investment and Growth. Public sector investments under the Fourth Development Plan (1991-95) moved forward in 1993. Official preliminary estimates suggest that the real growth of non-oil GDP was sustained at a high level (8 percent) in 1993, reflecting the lagged effects of the 1992 surge in budget outlays. As real value added in the oil sector rose, aggregate real GDP maintained a 7 percent growth rate.

Donor Involvement in Oman.

International Monetary Fund (IMF): Oman has no outstanding purchases or loans with the IMF.

World Bank (IBRD): The World Bank approved its last loans to Oman in 1986 and 1987. As of June 1994, only $6.21 million remain undisbursed from loans approved in FY87 for a Third Education Project and Health Project. While both loans are nearly complete, the health project loan was extended to April 1995 so remaining project activities may be completed. The education project will close in December 1994.

United States Agency for International Development (USAID): The USAID program, implemented through the Omani-American Joint Commission (OAJC), focuses on: 1) increased Omani work force capacity and capabilities in key ministries through training; 2) increased conservation and protection of water resources; and 3) increased use of modern contraceptive methods to produce optimal family size. United States development assistance is scheduled to be phased out in 1996.

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11/94

Oman: Selected Economic Indicators, 1989-94

	1989	1990	1991	1992	Prov. 1993	Proj. 1994
NATIONAL INCOME						
Per Capita GNP (Atlas method US$)*	5,120	5,690	6,140	6,490	..	..
GDP Growth (market price %)	3.6	8.8	9.2	6.8	5.0	..
U.S. LOANS & GRANTS						
Loans	n.a.	n.a.	n.a.	n.a.	..	..
Grants	15.0	12.5	15.5	29.9	..	..
INVESTMENT & SAVINGS						
Gross Dom. Fixed Capital Formation/GNP (%)	15.7	14.6	18.7	..	..	..
Gross National Savings/GNP (%)	20.8	27.5	17.8	..	..	..
PRICES, EMPOYMENT						
Consumer Price Index (end-year)	1.3	10.1	7.2	3.4	1.0	..
EXCHANGE RATE (Omani Rials/U.S.$)						
Market Rate (end of period)	0.39	0.39	0.39	0.39	0.39	..
MONEY						
Broad Money Growth (%)	9.4	10.0	5.5	3.1	3.2	1.8
BALANCE of PAYMENTS (m. US$)						
Current Account Balance	343	1,228	-247	-292	-830	..
Exports f.o.b.	3,803	5,231	4,441	4,897	4534	..
Imports c.i.f.	-2,367	-2798	-3327	-3900	-4296	..
Net Services	-565	-667	-832	-812	-645	..
Capital Account Balance	66	-497	580	293	110	..
Overall Balance	359	382	595	128	-872	..
DEBT						
External Debt ($ million)	2,586	2,203	2,425	2,698	2,650	..
As % of GDP	30.8	20.9	23.8	23.5	22.7	..
Debt Service as % of Exports of Goods and Services	18.7	14.5	12.4	10.9	13.2	..
PUBLIC SECTOR (% of GDP unless otherwise indicated)						
Revenue (Excluding Grants)	47.8	52.3	49.4	45.4	41.1	39.5
Total Expenditures	50.9	46.2	47.1	50.7	48.6	44.7
Overall Deficit (Excluding Grants)	4.3	3.6	5.8	1.1	-7.5	..
Current Account as % of GDP	4.1	11.7	-2.4	-2.5	-7.1	..
SOCIAL INDICATORS (%)						
Population Growth*	3.7	3.6	3.9	4.0	..	..
Infant Mortality (per thousand births)	..	33.3	..	20.0	..	..
School Enrollment Ratio	..	102	..	..	..	..

Data obtained from the International Monetary Fund.

* Data obtained from the World Bank.

ANE/SEA/EA:JGREEN X3-2635

PAKISTAN ECONOMIC OVERVIEW
November 1994

Macroeconomic Setting. Pakistan has a population of 125.2 million with a per capita income of $410. The average annual population growth rate was 3.1 percent from 1985 to 1993. Real GDP growth in 1993 was 7.5 percent and is an estimated 6.5 percent for 1994.

Investment and Growth. For the past decade, gross domestic investment (as a percentage of GDP) has averaged less than 19%, compared with 21-36% in several other Asian countries. During the past decade, real GDP growth has averaged 5.7% annually, despite relatively low investment, by neglecting the maintenance of capital stock and by reaping productivity gains in agriculture. The government is promoting private investment as part of the structural adjustment, with some success. The private share of gross domestic investment is up to about 65%, from 41% in 1985. Reducing the budget deficit facilitates private sector investment.

Fiscal Policy. The weakness of fiscal policy has been a major factor behind the financial imbalances and have undermined structural reforms. The medium-term fiscal program has four main features: 1) a broadening of the domestic tax base through an extension of sectors covered and elimination of exemptions; 2) a shift in emphasis toward consumption taxation; 3) greater flexibility in setting administered prices; and 4) an improvement in the productivity of public expenditures. The deficit is programmed to decline from 7.9 percent of GDP in 1992/93 (ending June 30) to 2.5 percent of GDP in 1996/97. In 1993, total expenditure/GDP was 24.1 percent and total revenue/GDP was 18.6 percent.

Financial Reforms and the Commercial Banking System. The government's financial sector initiatives seek to lower inflation, produce a competitive financial sector, and reverse a trend toward financial disintermediation. The GOP transferred control of two nationalized commercial banks back to the private sector, with plans to sell-off two more state-owned banks. Moreover, ten new commercial banks in the private sector will be sanctioned during the period between 1992-96. Most of the existing investment banks and investment companies have been formed during the past five years. The Government has adopted new regulatory structures to cope with the expanded financial sector. In March 1991, an auction system for government securities was introduced. Rationalization of interest rates has encouraged businesses to raise capital via the stock market, with less reliance on debt. In 1994, the government took steps to increase the rate of return on treasury bills, Federal Investment Bonds, etc.; improve the auctioning of securities; and improve loan recovery.

Money Growth and Inflation. The annual increase in the national consumer price index has shown a downward trend in the last two years: consumer price inflation was 10.7 percent in 1992, falling to 7.8 and 5.8 percent in 1993 and 1994, respectively. Broad money growth decreased from 21.8 percent in 1992 to 14.5 percent in 1993.

Balance of Payments. Despite adjustment efforts, Pakistan's balance of payments has remained weak with gross reserves in June 1993 falling to $1.0 billion, less than two months of imports. The reform program has created improved incentives for exports, while trade liberalization, together with expansionary fiscal policies, have encouraged imports. Adverse external factors (including the sluggish Middle East labor market), the liberalization of foreign currency deposits and the expectation of continued rapid depreciation of the rupee, have discouraged remittances. In 1994, Pakistan's current account deficit is projected to increase to 4.2 percent of GDP, up from 2.8 percent in 1993.

Exchange Rate Policies. Pakistan has maintained a flexible "managed float" exchange rate policy since January 8, 1982. The exchange rate is determined according to inflation targets and competitiveness of the external sector. Since the depreciation of the rupee in FY88-FY91, the rupee is steadily gaining ground against the US dollar. The market rate for the rupee has increased from 25.1 rupees/US$ in 1992 to 33.5 in 1994. The government expects the tightening of fiscal and monetary policies to provide greater nominal stability of the rupee.

Donor Involvement in Pakistan.

International Monetary Fund (IMF): The GOP embarked on a broad economic adjustment and structural reform program in 1988/89, supported by a structural adjustment facaility (SAF). As of the end of 1992, total Fund credit outstanding to Pakistan amounted to $917 million (120% of quota). Between Sept 1993 and Sept 1994, the IMF had a stand-by arrangement with Pakistan totaling $265.4 million.

IBRD (World Bank): The Bank Group has made a cumulative total of $8.8 billion in loans to Pakistan, as of the end of October 1993. About 31% of total Bank/IDA funding has gone to the agricultural sector; 23% for energy; 21% for infrastructure; 17% for industry; and 7% for education, health, and family planning.

Asian Development Bank (ADB): The ADB is providing $1.0 billion in lending for thirteen projects during 1992-93. The level for 1992 alone was reduced significantly from recent trends in response to the poor record of project implementation. For 1992-93, education and health will garner the most funds (23%), followed by agriculture (21%), finance and industry (19% each), transportation (16%), and energy (2%). The ADB is currently reevaluating its sectoral strategy in light of Pakistani privatization in recent years.

United States Agency for International Development (USAID): USAID is phasing out it's assistance program in Pakistan.

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Pakistan: Selected Economic Indicators, 1991-95

11/09/94	1991	1992	1993	Est. 1994	Proj. 1995
POPULATION (1)					
Millions	118.2	121.7	125.2	128.8	132.6
Growth Rate (%)	2.9	2.9	2.9	2.9	2.9
NATIONAL ACCOUNTS					
Real GDP Growth Rate (%)	2.4	3.0	7.5	6.5	n.a.
Per Capita GNP (Atlas method) U.S. $	400	400	410	420	n.a.
INVESTMENT & SAVINGS*					
Gross Domestic Investment/GDP (%)	20.0	20.2	19.8	21.4	n.a.
Private	9.4	9.8	9.3	11.2	n.a.
Gross Domestic Savings/GDP(%)	16.5	13.7	17.2	19.1	n.a.
Private	5.3	8.4	11.1	12.7	n.a.
PRICES					
CPI Annual Change (%) (2)	7.9	10.7	7.8	5.8	n.a.
EXCHANGE RATE [Rupees/US$]					
Market rate, period average	23.8	25.1	30.5	33.5	n.a.
Managed Float					
CENTRAL GOVERNMENT (% OF GDP)					
Total deficit/GDP	7.4	7.9	5.4	n.a.	n.a.
Total Revenue (excluding grants)/GDP	17.9	17.8	18.6	n.a.	n.a.
Total Expenditure/GDP	26.3	25.4	24.1	n.a.	n.a.
Deficit financing, foreign/GDP	1.7	1.9	1.7	n.a.	n.a.
Deficit financing, domestic/GDP	5.8	5.9	3.7	n.a.	n.a.
MONEY					
Money, Percentage Change (M1)	17.6	23.3	n.a.	n.a.	n.a.
Broad Money, Percentage Change (M3)	20.6	21.8	14.5	n.a.	n.a.
BALANCE OF PAYMENTS [blns US$]*					
Current Account Balance	-1.1	-3.0	-1.6	-2.5	n.a.
Balance as % of GDP (%)	-2.1	-5.5	-2.8	-4.2	n.a.
Trade Balance	-2.2	-3.1	-1.3	-2.1	n.a.
Exports fob	6.8	6.8	8.0	8.5	n.a.
Annual Percentage Change (%)	14.6	0.4	17.3	6.1	n.a.
Imports cif	9.0	9.9	9.3	10.5	n.a.
Annual Percentage Change (%)	7.3	9.9	-6.4	13.9	n.a.
Direct Investment	0.3	0.3	0.3	0.4	n.a.
EXTERNAL DEBT*					
Debt Outstanding, 6/30 [blns US$]	19.8	22.7	23.7	24.0	n.a.
Debt Outstanding/GDP (%)	40.4	43.4	45.6	43.1	n.a.
Debt Service/Exports Goods & Services (%)	16.7	23.6	22.1	21.8	n.a.

*** = Data refers to the Pakistani fiscal year, which runs from July 1 to June 30. Data in the 1992 column, for example, refers to fiscal year 1992/93.**

(1) Population data obtained from U.S. Bureau of Census

(2) End of period.

Casey Delhotal, CDIE/ESDS, x3-2623

November 1994

PHILIPPINES ECONOMIC OVERVIEW
November 1994

Macroeconomic Setting. The Philippines has a population of 69.9 million people with a GNP per capita of $790. The annual average population growth rate between 1985-93 was 2.3 percent. Real GDP growth is estimated to be 4 percent in 1994. Thirty percent of families in the Philippines lived below the poverty line in 1988, but the government's social development and poverty eradication program has helped to reduce this level in recent years.

The Philippine government has implemented a structural reform program covering agricultural pricing and marketing, the financial sector, investment incentives, direct and indirect taxes, liberalization of the trade regime and privatization. This program has been undertaken in order to open the economy to external competition and correct major policy-induced internal distortions, thereby creating a business environment which compares favorably to other reforming countries. Even with this program, there are numerous problem areas, such as tax collection, energy, transport, and capital market reforms.

Fiscal Policy. The fiscal position improved significantly during 1990-92, but slipped somewhat in 1993. The total deficit was estimated at 1.4 percent of GDP in 1993, compared to 1.2 percent in 1992. The 1993 slippage was caused in part by the deficit in the Oil Price Stabilization Fund and the widening financial imbalance of the Government Owned and Controlled Corporations (GOCC).

Financial Reform and Commercial Banking System. The government has taken three actions to reform the financial sector: lifting of restrictions on opening new bank branches in priority rural areas; elimination of preferential reserve requirements on long term deposits; and unification of reserve requirements and standardization of deposit types across all financial institutions. In 1991, the Central Bank, Land Bank, and the Philippine Deposit Insurance Company began the Countryside Financial Institutions Enhancement Program to encourage rural banks to increase their capital base and broaden financial support to small enterprises in rural areas.

Inflation and Money Growth. At the end of 1993, inflation stood at 7.6%, declining from 13.1% at the end of 1991. A temporary oil price increase caused the inflation rate to rise to 10.5% by February 1994. Broad money growth surged to 25% by December 1993, due in part to the government's sharp limits on the amount of treasury bills auctioned.

Balance of Payments. The current account deficit narrowed to 2.1% of GNP in 1994. The continued growth of exports and large service inflows reflected improved confidence and the liberalization of the exchange system. Gross international reserves at the end of 1993 stood at $5.8 billion (3 months of imports). The completion of the debt exchange operation in December 1992 has normalized relations with commercial creditors, as shown by the Philippines' issue of $150 million in Eurobonds on relatively favorable terms.

Exchange Rate Policies. The Philippines maintains a floating exchange rate system, with intervention on the part of the Central Bank as appropriate. In spite of these interventions, the peso appreciated substantially over the past two years due to persistent net foreign exchange inflows. The inflows are associated with remittances by nationals living abroad, sizable interest rate differentials in favor of peso investments, and restored confidence in the peso. The consequence of the appreciation of the peso has been to make Philippine exports less competitive in the international market.

Investment and Growth. Gross domestic investment and gross domestic savings as a percentage of GDP is on an upward trend. In 1994, gross domestic investment is estimated to have risen to 25 percent, and is projected to rise again to 26.4 percent in 1995. Gross domestic savings was 14.6 percent in 1993 and is projected to rise to 15 and 16 percent in 1994 and 1995, respectively.

Donor Involvement in the Philippines.

International Monetary Fund (IMF): The IMF approved a credit for the Philippines of US$ 684 million on June 24, 1994 under the extended fund facility program.

IBRD (World Bank): As of March 31, 1994, the Philippines had received 147 Bank loans totaling $7.9 billion and 7 IDA credits totaling $277.2 million. The Bank has financed projects in nearly all sectors of the economy, with particular emphasis on agriculture, infrastructure, energy, and industry.

Asian Development Bank (ADB): For the period 1992-95, the ADB plans projects totaling $2081 million, with agriculture (36%) and energy (23%) the primary loan sectors. However, the loan pipeline strategy is currently being revised and may be affected by the stabilization program agreed upon with the IMF. This agreement sets strict limits on government expenditures and borrowing and may result in a reduced ability to implement existing projects and initiate new projects.

United States Agency for International Development (USAID): Broad based economic growth resources will total 5, 9, and 7 million dollars in 1994, 1995, and 1996, respectively. Planned economic growth program outcomes are: 1)increased private sector provision of goods, services and infrastructure traditionally provided by the private sector; 2) growth in business activity outside the National Capital Region; and 3)improved identification and implementation of trade, investment, and fiscal and monetary policies.

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Philippines: Selected Economic Indicators, 1992-95

11/29/94

	1992	1993	Est. 1994	Proj. 1995
NATIONAL ACCOUNTS				
Real GDP Growth Rate (%)	0.6	2.0	4.0	5.5
Per Capita GNP (Atlas method) US$	770	770	790	810
INVESTMENT & SAVINGS				
Gross Domestic Investment/GDP (%)	22.2	24.3	25.0	26.4
Private	16.5	17.8	n.a.	n.a.
Gross Domestic Savings/GDP (%)	14.7	14.6	15.0	16.0
Private	n.a.	n.a.	n.a.	n.a.
PRICES				
Consumer Price Index - Annual Change (%)	8.9	7.6	8.9	9.9
EXCHANGE RATE (Pesos/U.S.$) Independently floating	25.5	27.1	27.0	28.0
CENTRAL GOVERNMENT (% OF GDP)				
Total deficit/GDP	-1.2	-1.4	n.a.	n.a.
Total Revenue (excluding grants)/GDP	17.9	17.8	n.a.	n.a.
Total Expenditure/GDP	19.2	19.3	n.a.	n.a.
Deficit financing, foreign/GDP	1.1	0.8	n.a.	n.a.
Deficit financing, domestic/GDP	0.1	0.6	n.a.	n.a.
MONEY				
Money, Percentage Change (M1)	9.1	7.5	10.0	12.5
Broad Money, Percentage Change (M3)	11.0	12.5	16.0	20.0
BALANCE OF PAYMENTS [blns US$]				
Current Account Balance	-1.9	-3.3	-2.1	-1.3
Balance as % of GDP (%)	-3.6	-6.1	-4.1	-2.6
Trade Balance	-5.6	-6.2	-6.3	-9.7
Exports fob	9.8	11.1	12.8	14.9
Annual Percentage Change (%)	11.1	13.0	15.0	16.4
Imports cif	15.4	17.3	20.4	24.5
Annual Percentage Change (%)	20.1	12.0	18.0	20.3
Foreign Direct Investment	0.2	0.8	1.1	1.3
EXTERNAL DEBT				
Debt Outstanding, 12/31 [blns US$]	31	34	33	32
Debt Outstanding/GDP (%)	59	63	54	46
Debt Service/Export Goods & Services (%)	17	20	21	19
POPULATION [mlns]	67.1	68.5	69.9	71.3
Growth Rate (%)	2.1	2.1	2.1	2.1

Source: International Monetary Fund, World Bank, and Asian Development Bank.

Casey Delhotal, x3-2623
November 1994

SRI LANKA ECONOMIC OVERVIEW
November 1994

Macroeconomic Setting. Sri Lanka has a population of 17.9 million which is growing at the annual rate of 1.2 percent. Per capita GNP in Sri Lanka is $570. The growth rate of real GDP in 1993 was 5.7 percent and it is estimated at 5 percent for 1994. Although Sri Lanka has a low per capita income, its social indicators are relatively favorable.

In 1994, the president of Sri Lanka, faced with a defeat in the Southern provincial council elections, reintroduced populist measures, including a fertilizer subsidy, the restoration of free noon-time meals to 3 million children, and the launching of 15,000 rural employment projects. The president also announced the fifth round of the Poverty Alleviation Program, which has drawn criticism from economists in international lending institutions. The total cost of all measures announced will be $470 million.

Fiscal Policy. Over the last four years, the total deficit as a percentage of GDP has decline steadily. Total revenue has increased from 20.3 percent of GDP in 1991 to 21.8 percent in 1994, while total expenditure has decreased from 31.8 percent of GDP in 1991 to 29.4 percent in 1994. In 1994, the total deficit is projected to be 7.6 percent of GDP.

Inflation and Money Growth. Inflation jumped to 13.8 percent in 1992 and remained high during the first quarter of 1993, but by the end of 1994 is projected to decrease to 5.8 percent. As the incoming government takes over in 1995, a further slow decline in inflation is predicted. But a worrisome sign is that, during the first quarter of 1994, narrow money (M1) and broad money (M2) have both grown at around 19 percent.

Financial Reforms and the Commercial Banking System. The main monetary policy instruments are changes in the reserve requirement and refinance facilities, as well as selective credit controls. More recently, reforms have sought to improve the efficiency of open market operations as a means of affecting domestic liquidity growth. Interest rate policies are relatively liberal in Sri Lanka, but the dominance of two state-owned commercial banks is a source of distortion in setting market interest rates. As part of the 1994 borrowing program, the Central Bank has floated a new series of government securities, including securities with three, five, and seven year maturities, carrying interest rates of 14.5 percent, 15 percent, and 14.5 percent, respectively. The Colombo stock market has expanded in recent years, reflecting the Government's privatization program and the easing of restrictions on investment. The stock exchange is beginning a new series of listings. The 27 initial public offerings are due before the end of 1994.

Balance of Payments. Domestic demand for imports grew in 1994, due to the government's spending spree and a second year of good harvests. Tea prices are down and clothing exports are growing more slowly than in 1993. The trade deficit increased to 1.04 billion in 1993, around 10 percent of GDP. The current account increased from 2.9 percent of GDP in 1991 to 3.9 percent in 1993. However, Sri Lanka's foreign reserves are growing and it's foreign debt service payments have fallen to a manageable level. For the fourth consecutive year, Sri Lanka had a balance of payment surplus. On the down side, the current account deficit is predicted to widen to $430 million in 1994.

Exchange Rate Policies. Sri Lanka pursues a managed float regime, although the market's role in determining exchange rates was enhanced in August 1990. In March 1993, the Government of Sri Lanka announced that remaining controls on current account transactions were to be lifted. Although a few, minor controls exist for capital transactions, foreign exchange regulations have been generally liberalized. The surrender requirement for foreign exchange earnings has been lifted. In March 1994, Sri Lanka assumed Article VIII status under the IMF.

Investment and Growth. In 1993, real GDP growth was 5.7 percent, an increase from 4.3 percent in 1992. Continued high economic growth is possible. Sri Lanka's industrial growth remains strong and overseas investment remains high. GDP growth is estimated to be 5 percent in 1994. Economic growth is predicted to slow slightly in 1995 due to post-election fiscal tightening. Gross domestic investment/GDP rose to 26.2 percent in 1994 and is projected to increase to 27.2 percent in 1995.

Donor Involvement in Sri Lanka.

International Monetary Fund (IMF): In September 1991, Sri Lanka signed a three-year arrangement under the enhanced structural adjustment facility (ESAF). Disbursements during the first year totaled $157 million (50% of quota), as did second year disbursements.

IBRD (World Bank): Through mid-1992, the IDA had approved 64 credits totalling $1.6 billion. Civil conflict and cumbersome in-country procurement procedures have impeded project implementation. The Bank Group's major objectives in Sri Lanka are to promote export-led growth, reduce poverty, upgrade labor skills, and promote environmental protection.

Asian Development Bank (ADB): During the 1992-95 period, the ADB plans to provide $800 million in lending for eighteen projects. The leading sectors are finance (22%) and energy (21%), followed by agriculture (19%), social (18%), telecommunications (9%), transport (7%), and industry (3%). In 1994, ADB agreed to a loan of $75 million to finance private-sector projects. ADB objectives are to assist in structural development and accelerate economic growth.

United States Agency for International Development (USAID): Broad based economic growth resources will total between 6 and 7 million dollars during 1994-96. These resources will go towards projects such as private sector enterprise support, Mahaweli agricultural & rural development and enterprise development (1994), technical initiatives for the private sector (1994 & 95), agro enterprise (1994 & 95), natural resources and the environment, promotion of private infrastructure (1994 & 95), citizens participation, and sustainable economic growth (1996). Title III food aid totalled $25 million in 1994.

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Sri Lanka: Selected Economic Indicators, 1991-95

11/09/94

	1991	1992	1993	Proj. 1994	Proj. 1995
POPULATION (1)					
Millions	17.2	17.5	17.7	17.9	21.5
Growth Rate (%)	1.5	1.3	1.3	1.2	1.2
NATIONAL ACCOUNTS					
Real GDP Growth Rate (%)	4.8	4.3	5.7	5.0	n.a.
Per Capita GNP (Atlas method) U.S. dollars	500	520	540	570	n.a.
INVESTMENT & SAVINGS					
Gross Dom. Investment/GDP(%)	23.0	23.7	25.6	26.2	27.2
Private	14.4	14.9	16.7	17.0	18.1
Gross Domestic Savings/GDP(%)	12.8	15.0	17.2	17.3	18.3
Private	14.8	15.6	16.3	15.6	15.5
PRICES					
CPI Annual Change (%) (2)	9.0	13.8	7.0	5.8	n.a.
EXCHANGE RATE [Rupee/US$]					
Market rate (period average)	41.4	43.8	47.8	50.5	n.a.
Managed Float					
CENTRAL GOVERNMENT (% OF GDP)					
Total deficit/GDP	-11.5	-9.6	-8.0	-7.6	n.a.
Total Revenue (excluding grants)/GDP	20.3	20.3	21.7	21.8	n.a.
Total Expenditure/GDP	31.8	27.8	29.7	29.4	n.a.
Deficit financing, foreign/GDP	7.2	6.0	5.9	5.3	n.a.
Deficit financing, domestic/GDP	4.3	3.6	2.2	2.3	n.a.
MONEY					
Money, Percentage Change (M1)	17.0	7.4	8.4	n.a.	n.a.
Broad Money, Percentage Change (M2)	21.7	17.4	14.3	12.0	n.a.
BALANCE OF PAYMENTS [blns US$]					
Current Account Balance	-0.27	-0.35	-0.40	-0.43	n.a.
Balance as % of GDP (%)	-2.9	-3.6	-3.9	-3.9	n.a.
Trade Balance	-0.75	-0.96	-1.04	-1.17	n.a.
Exports fob	2.01	2.50	2.67	2.96	n.a.
Annual Percentage Change (%)	8.4	24.2	7.0	10.8	n.a.
Imports cif	2.76	3.46	3.71	4.12	n.a.
Annual Percentage Change (%)	6.8	25.2	7.5	11.0	n.a.
Direct Investment	0.10	0.12	0.12	0.13	n.a.
EXTERNAL DEBT					
Debt Outstanding, 12/31 [blns of US$]	5.41	7.11	7.30	7.91	n.a.
Debt Outstanding/GDP (%)	59.7	73.3	71.0	71.2	n.a.
Debt Service/Exports Goods & Services (%)	21.2	19.1	13.7	12.4	n.a.

The Sri Lanka fiscal year is the same as the calendar year.

(1) Population data obtained from U.S. Bureau of Census.

(2) End of period.

Michael Shea, CDIE/ESDS, x3-2632

November 1994

THAILAND ECONOMIC OVERVIEW
November 1994

Macroeconomic Setting. Thailand has a population of 58.9 million people and a GNP per capita of $2,220. The average annual population growth rate between 1985-93 was 1.6 percent. Although the level of absolute poverty has decreased substantially, more than 9 million people still remain poor.

Since 1990, growth in real terms has cooled-down from an average of 11% during the preceding decade to an estimated 8.3% in 1994. The slowdown in the economy was due to the tightening of fiscal and monetary policies during 1988-91 and was reinforced by the Middle East crisis in 1990-91, the recession in industrial countries beginning in 1990, the March 1991 coup in Thailand and continued political turbulence in 1992. The sectors that experienced the sharpest slowdown in 1991-1992 are the same sectors that expanded the most rapidly during the boom--manufacturing, construction, banking, insurance and real estate.

Fiscal Policy. The medium-term objective of foscal policy is to balance the budget. Under the Seventh Development Plan, a major goal of fiscal policy is to reduce the discrepancy between urban and rural incomes. In 1992/93 (ending August 30), there was an increase in funds devoted to rural development. In 1993, Central Government revenue was 18 percent of GDP and expenditure was 17 percent of GDP, resulting in a decline in the total surplus from 2.7 percent of GDP in 1992 to an estimated 1.2 percent in 1993.

Financial Reform and the Commercial Banking System. In recent years, structural regulations in the financial sector have gradually been relaxed. Thai authorities have shifted policy emphasis to monitoring the performance of financial institutions, including the use of revised capital adequacy requirements. The Bank of Thailand is modernizing the payments system by implementing an electronic check-clearing system and a large-value fund transfer system (LVFT). In addition to these reforms, a government owned export-import bank began operations in February 1994, and will provide medium- and long-term export credit guarantees, insurance, and information on market conditions.

Inflation and Money Growth. Monetary growth declined in early 1993, but increased as the year progressed due to large capital inflows mainly related to portfolio investment and nonresident baht accounts. The growth rate for M2 was about 18 percent in 1993, up from 16 percent the year before. The change in consumer prices increased to an estimated 4.2 percent in 1994 and is projected at 4.5 percent in 1995.

Balance of Payments. In 1993, the program for restructuring the tariff system was extended to additional sectors of the economy, and restrictions on capital outflows were relaxed. In 1994, the growth of exports is projected at 15.4 percent and import growth is estimated to be 16.9 percent, resulting in a trade deficit of 5.4 percent of GDP. External debt is projected to be $53 million at the end of 1994.

Exchange Rate Policies. The value of the baht is determined on the basis of a basket of currencies of Thailand's major trading partners taking into account domestic monetary and economic conditions. The exchange rate is fixed on a daily basis by the Bank of Thailand through the Exchange Equalization Fund (EEF). The value of the baht has been relatively constant vis-a-vis the U.S. dollar since the exchange rate system was adopted in 1984. In 1993 and early 1994, the Bank of Thailand has further relaxed regulations regarding the amount of domestic currency that can be taken to neighboring countries, eliminated the ceiling on funds that can be taken abroad for travelling expenses, and relaxed regulations governing the use of foreign currency accounts.

Investment and Growth. In 1994, gross domestic investment stabilized at about 44.1 percent of GDP. Foreign direct investment fell in 1993 as funds were redirected to lower-wage countries, but are on an upward trend in 1994 and 1995. Delayed infrastructure projects, funded partially by private funds, served to reduce private investment, but were offset by an increase in domestic investment in the capital-intensive manufacturing sector. Growth in real GDP is projected to exceed 8 percent in 1994 and 1995.

Donor Involvement in Thailand.

International Monetary Fund (IMF): In the last ten years Thailand has had three stand-by agreements with the Fund, for a total amount approved of $1.8 billion of which $1084.2 million was used. Thailand has no overdue obligations to the Fund and is in good standing.

IBRD (World Bank): Since 1950, Thailand has received 101 IBRD loans (worth $4.2 billion), six IDA credits ($115 million), and gross IFC commitments worth $766 million. In FY1992 IFC commitments totaled $271.5 million. The energy sector has been the primary beneficiary of the loans and credits (33%) followed by agriculture and rural development (24%), transportation (18%), telecommunications (7%), education (4%), urban development (3%), industry (2%) and population/health/nutrition (1%). Currently, the Bank's activities in Thailand focus on improving public resource management, enhancing the efficiency and competitiveness of the productive sectors and rationalizing policies and investments for infrastructure development.

Asian Development Bank (ADB): In the past 25 years, the ADB has provided 62 loans to Thailand for a total value of $2.5 billion. About half of these loans were for the energy sector and another quarter for transport and communications. In 1993, the ADB plans $534.3 million in loans in the energy, industry, communications and agriculture sectors.

United States Agency for International Development (USAID): USAID is phasing out its country program in Thailand. The mission in Thailand is a regional mission.

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Thailand: Selected Economic Indicators, 1992-95

11/30/94	1992	1993	Est. 1994	Proj. 1995
NATIONAL ACCOUNTS				
Real GDP Growth Rate (%)	7.5	7.8	8.3	8.2
Per Capita GNP [Atlas method] US$	1,840	2,090	2,220	2,360
INVESTMENT & SAVINGS				
Gross Domestic Investment/GDP (%)	39.5	39.3	44.1	45.1
Private	31.2	30.4	n.a.	n.a.
Gross Domestic Savings/GDP(%)	31.6	33.8	38.9	40.9
Private	21.8	21.8	n.a.	n.a.
PRICES				
CPI Annual Change (%)	4.1	3.5	4.2	4.5
EXCHANGE RATE (Baht/U.S.$)				
Official Rate, period average	25.4	25.3	25.2	25.7
Pegged to a Currency Basket				
CENTRAL GOVERNMENT (% OF GDP)				
Total deficit [-] or surplus [+]/GDP	2.7	1.2	n.a.	n.a.
Total Revenue (excluding grants)/GDP	18.6	18.0	n.a.	n.a.
Total Expenditure/GDP	16.1	17.0	n.a.	n.a.
Deficit financing, foreign/GDP	-0.3	0.2	n.a.	n.a.
Deficit financing, domestic/GDP	-2.3	-1.4	n.a.	n.a.
MONEY				
Money, Percentage Change (M1)	12.3	18.6	21.1	14.0
Broad Money, Percentage Change (M3)	15.6	18.4	22.0	15.3
BALANCE OF PAYMENTS [blns US$]				
Current Account Balance	-6.7	-7.6	-7.4	-6.9
Balance as % of GDP (%)	-6.0	-6.1	-5.4	-4.4
Trade Balance	-7.9	-8.5	-10.5	-10.7
Exports fob	32.2	36.6	42.2	48.2
Annual Percentage Change (%)	16.7	13.5	15.4	14.1
Imports cif	40.1	45.1	52.7	58.9
Annual Percentage Change (%)	9.5	12.3	16.9	11.7
Foreign Direct Investment	1.5	1.0	1.5	1.8
EXTERNAL DEBT				
Debt Outstanding, 12/31 ($ m.)	43,686	48,200	53,000	56,700
Debt Outstanding/GDP (%)	41.5	40.5	39.7	40.6
Debt Service/XGS (%)	10.8	10.5	10.7	10.9
POPULATION [mlns]	57.6	58.2	58.9	59.7
Growth Rate (%)	1.3	1.2	1.2	1.2

Source: International Monetary Fund, World Bank, and Asian Development Bank.

Casey Delhotal, x3-2623
November 1994

TUNISIA ECONOMIC OVERVIEW
04/12/94

Macroeconomic Setting. Tunisia, with a population of 8.2 million, had a GNP per capita of $1,740 in 1992. The Government of Tunisia (GOT) has been relatively successful in implementing reforms that promote a more open, market-oriented economy. Real GDP growth reached an estimated 3.0 percent in 1993, compared with 8.0 percent in 1992. GDP is expected to increase by an average of 5.7 percent form 1993 to 1998. Non-energy export volume has grown at an average annual rate of over 10 percent since 1986. Between the late 1960s and 1990, the number of absolute poor declined form 33 percent of the population to 7 percent. Unemployment has remained persistently high and was estimated at 15 percent in 1992.

Fiscal Policy. The GOT must continue its sustained fiscal adjustment in order to release resources to the private sector, improve savings performance of the government sector, and ease the external debt burden. At the start of the 1980s, the decline in Tunisian oil production, coupled with the fall in world oil prices, substantially reduced the resources available to the Tunisian public sector. As a result, both domestic and external debt accumulated substantially during the first half of the 1980s. The GOT has decreased the overall deficit and increased revenues through improving tax assessment and collection procedures, reinforcing tax auditing operations, reforming taxes and transferring profits form the petroleum companies.

Inflation and Money Supply. The rate of inflation was brought down to 5.1 percent in 1992, after hovering around 7 percent for several years. Tunisian monetary authorities, responsible for the dinar's managed float exchange rate policy, generally target growth in M2 to match growth in nominal GDP.

Trade Liberalization. The liberalization of trade and prices, which had been slowing, has again accelerated; further acceleration of reforms is necessary in order to increase efficiency. Whereas 72 percent of production in agriculture and manufacturing had been protected by quantitative restrictions (QRs) on imports in 1991, only 42 percent is now protected, and virtually all QRs are expected to be eliminated by the end of 1994. It is expected that after 1994, subsidies will remain on only a few articles of basic consumption.

Privatization. Privatization must also be accelerated to spur efficiency and foreign investment. Privatization began in 1987 but proceeded slowly until it started to accelerate recently. Of the nearly 200 enterprises in which the State had majority shares, only about 40 small firms have been privatized to date. However, the diffusion of responsibilities that caused such slowness did ensure a measure of transparency and public acceptance. Recently, the Ministry of Planning has been given the responsibility for privatization, while some of the old structures to ensure transparency are being preserved. A list of 30 enterprises has been identified for early privatization.

Savings and Investment. Gross domestic savings as a ratio of GDP increased from 16.2 percent in 1986 to an estimated 21.7 percent 1993, and is estimated to increase to 23.2 percent in 1994. Investment has also increased from 26.2 percent of GDP in 1981 to an estimated 27.5

percent in 1993. Investment is expected to hold steady at around 28.4 percent of GDP in 1994.

Donor Involvement in Tunisia.

International Monetary Fund (IMF): The GOT received support form the IMF during the period 1986 to 1992, in the form of a stand-by arrangement and subsequently by a four-year extended fund facility. Tunisia did not seek debt rescheduling and serviced its external debt on schedule throughout this period. Tunisia has been able to "graduate" from use of Fund resources, establishing convertibility of the dinar for current account transactions in January 1993. Article IV consultations in April/May 1993 stressed the need to accelerate structural reforms as well as step up the pace of fiscal adjustment.

World Bank (IBRD): Since 1962, the Bank has committed loans totalling $3.0 billion (net of cancellations) to the GOT. Past lending emphasized long-term support for infrastructure, social development, agriculture, industry and adjustment. But since 1986, World Bank support has been mainly in the from of two structural adjustment loans. As of September 1993, the Bank's commitment by sector was as follows: agriculture, 11.7 percent; industry and energy, 16.5 percent; transport and infrastructure, 28.6 percent; education and employment, 10.4 percent; and non-sector, 32.8 percent.

Government development objectives are currently in the Eighth Five-Year Plan (1992-1996). The Bank's assistance strategy is built on four areas of reform: public sector; social sector; natural resources and the environment; and external economic integration. The primary vehicle to attain these reforms is through sector investment loans (SIL).

United States Agency for International Development (USAID): USAID/Tunis supports IMF/World Bank reforms through two projects, both initiated in FY 1992: Private Enterprise Promotion (PEP) Project (664-0346) and the Management Training for the Private Sector (MTPS) Project (664-0355). PEP is a $1.5 million project which, in light of reduced funding levels, is now limited to assisting the GOT's efforts to privatize state-owned enterprises and improve the financial markets environment. MTPS is a $3 million project which was designed to improve private sector management practices and technical knowledge through training both in the U.S. and in Tunisia. Again, due to reduced funding levels, MTPS is restricted to funding the remaining costs of completing degree programs started years ago under another project, some funding for the International Executive Service Corps, some business-oriented professional training in the U.S. as well as business seminars in Tunisia.

Source:
International Monetary Fund, Tunisia - A review if Adjustment Experience, August 13, 1993.

Produced by: JGreen, ANE/SEA/EA
Cleared by: JManarolla, 12/28/94

Tunisia: Selected Economic Indicators, 1989-94

04/12/94	1989	1990	1991	1992	Est. 1993	Proj. 1994
NATIONAL INCOME						
Per Capita GNP (Atlas method US$)+	1,280	1,440	1,500	1,740	..	..
GDP Growth (% Change)	3.7	7.6	3.9	8.0	3.0	6.2
U.S. LOANS & GRANTS						
Loans	22.5	12.0	14.4	15.0	..	..
Grants	14.2	32.0	5.0	5.0	..	..
INVESTMENTS & SAVINGS						
Gross Investment/GDP (%)	22.6	26.4	23.3	27.3	27.5	28.4
Gross Domestic Savings/GDP (%)	19.3	21.1	18.9	21.4	21.7	23.2
PRICES, EMPLOYMENT						
Consumer Price Index (average % change)	7.7	6.5	7.8	5.5	5.1	..
Unemployment	..	..	..	15.0	..	..
EXCHANGE RATE (dinars/U.S.$)						
Market Rate (period average)	0.95	0.88	0.92	0.88	1.01	..
Dinar/SDR (end of period average)	1.89	1.19	1.24	1.31	1.43	..
MONEY						
Money Supply (M-2) Growth (%)	11.0	6.3	5.5	8.2	6.5	..
BALANCE of PAYMENTS (m.SDRs)						
Current account Balance	-259	-487	-423	-666	-647	-638
Exports f.o.b.	2,286	2,592	2,711	2,863	2,966	3,326
Imports f.o.b.	-3,234	-3,852	-3,581	-4,309	-4,457	-4,893
Net Service	689	773	447	780	845	930
Net Transfers	54	179	43	109	..	..
Total Account Balance	320	412	375	749	756	745
Overall Balance	62	-74	-48	83	110	107
DEBT						
External Debt (m.SDR @ end of period)	4,713	5,007	5,355	5,467	5,637	..
As % of GDP	58.0	54.2	54.3	51.3	51.4	49.2
Debt Service as % of Exports of Goods and Services	23.0	22.7	23.5	19.9	19.9	18.2
PUBLIC SECTOR (% of GDP)						
Gov. Expenditure and Net Lending	36.1	34.5	34.3	31.9	32.0	..
Revenue	30.4	29.8	28.7	28.9	..	..
Current Deficit	-3.3	-5.3	-4.4	-6.0	-5.8	-5.3
Overall Deficit (Excluding Grants)	-5.7	-4.6	-5.6	-3.0	-2.6	..
Foreign Grants	1.4	0.6	0.2	0.4	..	..
Domestic Financing	3.1	3.2	2.8	2.4	1.9	..
Foregin Financing	1.2	0.7	2.6	0.2	0.3	..
SOCIAL INDICATORS (%)						
Population Grwoth+	1.8	2.1	2.0	2.0	..	..
Infant Mortality (per thousand births)	46.0	44.0	..	..	..	..
Illiteracy Rate	..	35.0	..	..	..	..

VIET NAM ECONOMIC OVERVIEW
November 1994

Macroeconomic Setting. Viet Nam's population is 71.9 million, with an average annual population growth rate between 1985-1993 of 2.4 percent. Viet Nam is considered to be among the 20 poorest countries in the world despite recent high GDP growth rates. In 1994, the growth rate of GDP is estimated at 9 percent.

Viet Nam began the transition to a market economy in 1986, implementing reforms which included changing to family-based land tenure, liberalizing prices, allowing greater managerial autonomy in state-owned enterprises, establishing a two-tier banking system, and reforming tax and exchange policies. Important reforms during 1993 included wage reform, reduced concessionality in refinancing by the State Bank, and the introduction of laws regulating land use rights and bankruptcy.

Fiscal Policy. The budget deficit decreased from 8.5 percent of GDP in 1989 to 2.3 percent in 1992, but widened again to 6.2 percent of GDP in 1994 with the introduction of more expansionary policies. Viet Nam has made attempts to reduce budgetary subsidies to state-owned enterprises (SOE), with future steps to include selective privatization and closure of SOEs. However, the government faces problems due to the poor state of enterprise accounts, nonperforming debt and the lack of complete bankruptcy and liquidation procedures.

Financial Reform and the Commercial Banking System. In May 1990, laws were enacted to address some of the shortcomings of the financial system and set up the basis of a competitive banking system. The State Bank of Vietnam (SBV) was authorized to perform traditional central bank functions and bank supervision. Commercial banks are now authorized to take deposits and make loans for both households and enterprises. Licenses for foreign banks began to be granted in 1992. Despite the reforms, the banking sector continues to be constrained by government intervention. Financial markets remain at the very early stages of development. Efforts to increase private sector access to credit have been made, resulting in a 47 percent expansion in domestic credit during the year ending June 1993.

Inflation and Money Growth. Annual inflation declined from 100 percent in 1989 to 8 percent as of July 1993. The decline was due to declining liquidity expansion, reduced borrowing requirements of the public sector in relation to GDP, and greater nonmonetary financing of the domestically covered portion of the government deficit.

Balance of Payments. The external current account deficit declined from 8 percent of GDP in 1989 to less than 1 percent in 1992, due to decreases in imports from the former Council of Mutual Economic Assistance countries and increases in exports. However, it rebounded to 7 percent of GDP in 1994, reflecting both the higher level of investment and the steep fall in national savings. The balance of payments in this period was financed in large part by the accumulation of arrears to external creditors. Arrears reached $1.6 billion in convertible currencies and 3.3 billion in transferable rubles by the end of 1992 (transferable rubles are pegged to international currencies and therefore do not lose their value as the Rusian ruble depreciates). The debt service ratio has fallen from 42 percent in 1989 to 13 percent in 1994, due in part to the doubling of the value of exports since 1989 and the fairly constant stock of external debt.

Exchange Rate Policies. Viet Nam follows a managed float exchange rate policy. In March 1989, all exchange rates of the dong in terms of convertible currencies were unified to a single official exchange rate at the level of the parallel foreign exchange market. The real effective rate appreciated by 25 percent in 1992; a 1993 real depreciation of 2 percent failed to compensate.

Investment and Growth. GDP in real terms rose 9 percent in 1994, compared to 8 percent in 1992 and 1993. Industrial output in particular increased sharply, due to crude oil production increases, a construction boom, and a bumper harvest that assisted the food processing industry. Foreign investment has increased dramatically since the passage of the 1987 foreign investment law that permits full foreign ownership and management. Since 1988, more than 400 projects from over 30 countries have been approved, with commitments totalling $4 billion at the end of September 1992. Gross investment increased almost 3 percent of GDP from 1989-93, with foreign direct investment accounting for slightly less than half of this increase.

Donor Involvement in Viet Nam.

International Monetary Fund (IMF): Viet Nam, with help from France and Japan, cleared its arrears of $140 million with the Fund in October 1993, making a $223 million stand-by arrangement possible.

IBRD (World Bank): Viet Nam's debt service payments to the Bank were current as of September 1993. With UNDP financing, the Bank is implementing several technical assistance projects, with the Bank approving $228 million in loans on October 25, 1993.

Asian Development Bank (ADB): After a hiatus since 1975 in approving new loans, the ADB resumed operation in Viet Nam in 1993, with plans to fund 11 projects totalling $844 million in the period 1993-1995. These projects are in the agricultural, energy, social, and transport sectors. The ADB approved $261.5 million in loans in October 1993 for disbursement over the next year. Eleven technical assistance projects, totaling $9.95 million, were also approved in the last quarter of 1993.

United States Agency for International Development (USAID): Viet Nam is not currently receiving funds from USAID. However, there are numerous non-government organizations operating in Viet Nam, including Save The Children, Vets With A Mission, Viet Nam Health, Education & Literature Projects, American Friends Service Committee, and the East Meets West Foundation. Projects covered include literacy, health, agriculture, clean water, and legal studies.

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Draft: Casey Delhotal, CDIE/ESDS, x32623.
Cleared: Greg Baker, USAID/ANE/SEA/EA.
JManarolla 12/21/94

Viet Nam: Selected Economic and Social Indicators, 1992-95

11/30/94	1992	1993	Est. 1994	Proj. 1995
NATIONAL ACCOUNTS				
Real GDP Growth Rate (%)	8.3	8.0	9.0	10.0
Per Capita GNP (Atlas method) US$	220	230	250	270
INVESTMENT & SAVINGS				
Gross Domestic Investment/GDP (%)	12.0	19.8	21.7	25.0
Private	n.a.	n.a.	n.a.	n.a.
Gross Domestic Savings/GDP (%)	11.3	5.3	n.a.	n.a.
Private	n.a.	n.a.	n.a.	n.a.
PRICES				
CPI Annual Change (%)	17.5	12.0	8.5	6.0
EXCHANGE RATE (Dong/U.S.$) Managed floating	10,555	10,850	11,060	n.a.
CENTRAL GOVERNMENT (% OF GDP)				
Total deficit/GDP	-4.0	-6.8	-6.2	n.a.
Total Revenue (excluding grants)/GDP	19.7	23.6	25.4	n.a.
Total Expenditure/GDP	24.5	31.2	31.6	n.a.
Deficit financing, foreign/GDP (1)	2.6	1.5	3.6	n.a.
Deficit financing, domestic/GDP	-0.8	1.3	1.7	n.a.
MONEY				
Money, Percentage Change (M1)	n.a.	n.a.	n.a.	n.a.
Broad Money, Percentage Change (M2)	33.7	19.0	18.9	19.0
BALANCE OF PAYMENTS [mlns US$]				
Current Account Balance	-36	-758	-960	-1220
Balance as % of GDP (%)	-0.7	-6.6	-7.1	-8.4
Trade Balance	566	-3442	-4231	-5167
Exports fob	2,475	2,851	3,453	4,143
Annual Percentage Change (%)	21.2	15.2	21.1	20.0
Imports cif	2,500	3,457	4,252	5,187
Annual Percentage Change (%)	20.4	38.3	23.0	22.0
Foreign Direct Investment	260	300	330	400
EXTERNAL DEBT				
Debt Outstanding, 12/31 [mlns US$]	17,678	17,678	19,550	21,400
Debt Outstanding/GDP (%)	87.8	80.5	81.7	82.1
Debt Service/Export Goods & Services (%	22.4	26.8	13.2	12.0
POPULATION [mlns]	69.0	70.5	71.9	73.5
Growth Rate (%)	2.1	2.1	2.1	2.1

Source: International Monetary Fund, World Bank, and Asian Development Bank.

(1) Grants are included with foreign financing loans & grants.

(2) To convertible area only

Casey Delhotal, x3-2623

November 1994

WEST BANK AND GAZA ECONOMIC OVERVIEW
July 1994

Macroeconomic Overview. The economies of the West Bank and Gaza Strip (WB/G) are service-oriented with services accounting for approximately 50% of GDP. The area is characterized by a very small agricultural and manufacturing base where agriculture makes up approximately 30%, industry approximately 8%. The private sector dominates the economy, accounting for 85% of GDP. In the WB/G, per capita GNP for 1992 is estimated at $2,068 with a GDP growth rate of 2.3 percent. The West Bank's GDP over 1990 and 1991 averaged $1.67 billion, while Gaza's was only $560 million. The population of WB/G rose from 1.43 million in 1987 to 1.68 million in 1991 and continued to increase 5.2 percent in 1992. The economic stagnation of the 1980s and absolute decline in income resulting from the Gulf War was reversed briefly in 1992, with a substantial rebound of economic activity fueled in part by expectations of peace. In 1993, the region experienced another sharp downturn as a result of the (partial) closure of Israel to the WB/G economy in March. Investment as a percentage of GNP was 21.9 percent in the West Bank in 1989 and 21.2 percent for Gaza in 1990.

The current account is characterized by a large trade deficit ($271 million or 13 percent of GDP in 1991) with imports three to four times higher than exports. In 1992, the deficit narrowed to $148 million, or 6 percent of GDP, but increased in 1993 ($201 million for the first six-months of 1993). In 1994, if a substantial amount of foreign aid is dispersed, imports are expected to increase, resulting in another large current account deficit. The external labor market has played a key role in financing WB/G's large current account deficits, through the remittances of Palestinian workers and transfers from Gulf States. These remittances also explain the large difference between GDP and GNP, where the latter includes them and the former does not.

Fiscal Policy. Government expenditures increased slightly from 10.3 percent of GDP in 1991 to 12 percent in 1992. In that same period, revenues also increased from 12 percent of GDP to 12.6 percent. Public sector revenues in the Occupied Territories averaged 16 percent of GDP between 1987 and 1991. The emphasis on financing the Palestinian self-government has relied almost entirely on foreign aid. Aid pledges will amount to more than 25 percent of GNP and nearly 40 percent of GDP in 1994. In the medium-term, aid will continue to play a major role in financing the new government's expenditures; an estimated 15 percent of GNP through 1998.

Revenues are generated through: a personal income tax at rates ranging from 8 percent to 48 percent; a corporate income tax; a uniform 17 percent VAT; customs and excise duties; health fees paid by employees of the Civil Administration; and other fees and charges. These existing taxes will form the foundation for the Palestinian tax system. The draft Palestinian budget foresees a gradual increase in tax revenues as the Palestinian National Authority assumes control. A preliminary budget anticipates tax collection by the Palestinian tax authorities of $150 million in 1994 and the reduction of the VAT rate to level between 15-16 percent; slightly below Israel's 17 percent. The budget includes an additional $135 million in revenues collected by the Israeli government and remitted to the Palestinians. By 1995, the Palestinians anticipate tax revenues to be $510 million.

Financial Reform and the Commercial Banking System. The financial system in the WB/G is restricted by an underdeveloped banking system which has not encouraged financial intermediation. A system of moneychangers provides traditional banking services such as foreign exchange, transfers, and short-term loans. These institutions play a small role in the mobilization of savings and the extension of medium to longer-term credit.

The Palestinian Monetary Authority (PMA) will serve as the official economic and financial advisor, the depository and manager of foreign currency and gold reserves, the responsible agency for licensing and supervising banks and foreign exchange dealers, and the lender of last resort for the banking system.

Inflation and Money Growth. Inflation in the West Bank decreased from 13.9 percent in 1992 to 6.8 percent in 1993. In Gaza, inflation also decreased from 14.1 percent to 5.7 percent in the same period. Because of the political uncertainty and underdeveloped banking systems, the WB/G continue to have cash economies which are vulnerable to external inflationary pressure caused by the rising cost of imports from Israel, shifting remittance flows from Palestinians working abroad, and depreciation of foreign currencies. Money holdings in WB/G are very high relative to GDP by international standards. Estimates of the ratio of currency and demand deposits to GDP range from 40 percent to 75 percent.

Balance of Payments. Throughout the Occupation there has been a steady increase in Israeli imports by the WB/G from $946 million in 1989 to $1,500 million in 1991. In the period 1990-92, Israel accounted for approximately 87% of the total imports by the WB/G and 83% of its exports. Overall, exports from the WB/G have increased from $885 million in 1989 to $1,042 in 1991. About one-third of the GNP of WB/G depends on transactions with Israel, whose control over WB/G exports, more than any other factor, has influenced the level of these exports in recent years.

Exchange Rate Policies. During the transition to self-rule, both the New Israeli Sheckel (NIS) and the Jordanian Dinar (JD) will remain legal tender in the West Bank while the Gaza Strip will adopt the dinar. It is likely that the introduction of a Palestinian currency will not occur in the medium-term. The official circulating currencies will be the NIS, JD and US$.

Employment. In the West Bank, the sum of unemployment, involuntary part-time employment, and absenteeism have risen from 12.8 percent in 1980 to 25.3 percent in 1991; while the corresponding figures for Gaza are 9.0 and 19.3 percent, respectively. In 1992, the unemployment rate for the Occupied Territories was estimated at 37 percent. The labor force participation rate is low by international standards with the *intifada* as the major explanatory factor. Until the frequent boarder closings with Israel, approximately one-third of the Palestinian labor force worked in Israel, accounting for one quarter of GNP.

Investment and Growth. The economy of the WB/G has declined since the late 1980s, exacerbated by the *intifada* and the Gulf War. The trend reversed briefly in 1992, when the repatriation of Palestinian savings sparked growth in the construction industry and service sectors.

Agriculture has been the only sector to register overall real growth since the mid-1980s while output in all other sectors declined. Construction, hit hard by the *intifada's* drain on savings and investments, accounted for 13% of GDP in 1991-92 compared with 15% in 1986-87.

Donor Involvement in the West Bank/Gaza.

International Monetary Fund (IMF): The IMF provides technical assistance to the Palestinian Statistics Office and assists the Palestinians in the establishment of Treasury and Budget Offices. The IMF provides technical assistance in the areas of tax, expenditure management, and statistics. It provides training through its regular training programs, as well as seminars for senior managers and policy makers. The IMF will assist in the recruiting and screening of candidates for senior positions within these sectors.

World Bank (IBRD): The World Bank has worked closely with Palestinian counterparts and Israeli government officials to identify an Emergency Assistance Program of priority investments. The program, worth an estimated $650 million, will be implemented over the next three years. To complement the planned physical investment, a three-year program of priority technical assistance has been identified as follows: build institutions and enhance Palestinian capacity for self-government; facilitate the rapid execution of investment projects so that results are quickly visible; help the new Palestinian authorities design integrated policies and programs for WB/G; assess the feasibility of proposed physical and social infrastructure investments for the longer term; and encourage the growth of the private sector. This program accounts for approximately 80 technical assistance activities with an estimated aggregate cost of $43 million.

The Technical Assistance Program is viewed as flexible and phased to reflect the strategy in each sector, but subject to review and adjustment every six months to accommodate evolving priorities of the Palestinian self-governing authority, while remaining consistent with agreed sectoral strategies and the overall objectives of the Emergency Assistance Program.

United States Agency for International Development (USAID): The USAID program in the WB/G will focus on achieving six strategic objectives: the improved quality and more sustainable use of existing water resources; Palestinian management of the planning and provision of sustainable, preventive public health services which promote appropriate roles for the public and private sectors; Palestinian public and private sector planning and provision of improved housing for low and moderate income residents; larger sustainable production of goods and services of Palestinian producers; democratic and legal institutions established to strengthen accountability; and municipalities that assume expanding responsibilities and perform their functions in an effective, accountable and responsive manner.

The USAID projects supporting economic growth and policy reform include small activities in the areas of cooperative development, agricultural marketing, and industrial development. Regarding initiatives scheduled to begin in FY 1994, key are the Small Business Support Project ($11 million), the Microenterprise and Small Business Investment Guaranty Program ($9 million), and the activities of organizations that receive USAID support to promote private sector investment.

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Drafted: JGreen; X6-4511
Cleared: JManarolla 12/23/94.

07/11/94

West Bank and Gaza: Selected Economic Indicators, 1989-94

	1989	1990	1991	1992	1993	Proj. 1994
NATIONAL INCOME						
Per Capita GNP (1991 prices)	1,663	1,853	1,678	2,068	--	--
Real GDP Growth (% change)	-2.6	11.4	-9.4	2.3	--	--
By Sector (% annual change)						
Agriculture	-23.2	50.6	-21.3	--	--	--
Industry	-2.6	15.2	2.4	--	--	--
Construction	9.5	5.3	-6.8	--	--	--
Public & Community Services	12.2*	22.0	2.63	--	--	--
Other Services	11.5	16.5	-0.4	--	--	--
PRICES, EMPLOYMENT						
Consumer Price Index (% change, end-year)						
West Bank	14.5	13.0	11.5	13.9	6.8	--
Gaza	15.7	16.9	7.0	14.1	5.7	--
Total Employment (% change)	-0.9	6.2	-0.3	-2.4	--	--
Unemployment Rate (%)	3.7	3.7	7.9	4.2	--	--
Employment Rate (%)	37.0	37.0	34.5	37.2	--	--
EXCHANGE RATE (Jordanian dinar and the Israeli shekel)						
Jordanian Dinar (per US$)	0.57	0.66	0.68	0.68	--	--
Israeli Shekel (per US$)	1.92	2.02	2.28	2.46	--	--
BALANCE of PAYMENTS (m. US$)						
Current Account Balance	63	24	-271	-148	-201	--
Exports f.o.b.	885	1,074	1,042	--	--	--
Imports c.i.f.	946	1,202	1,500	--	--	--
Net Service	412	483	434	549	82	--
Net Transfers	124	153	187	235	129	--
PUBLIC SECTOR (% of GDP)						
Revenue	11.8	12.5	12.0	12.6	--	282
Total Gov. Expenditure	11.7	11.7	10.3	12.2	--	268
Current Deficit	4	1	-13	-6	--	14
Overall Deficit	0.1	0.9	1.7	0.6	--	-143
Israeli Financing	0.0	0.0	0.0	0.0	--	--
Foreign Financing	0.1	0.1	0.1	0.1	--	--
SOCIAL INDICATORS						
Population Growth	2.9	4.8	5.1	5.2	--	--
Average Daily Wage (NIS at currant prices)	25.37	28.85	--	--	--	--

FOREIGN AID PLEDGES FOR THE INTERIM PERIOD BY FORM OF AID (US$ mil.)	1994	1995	1994-98
Grants and Highly Concessionary Loans	412	209	1,382
Loan Guarantees	107	132	525
Undetermined	95	100	195
UNRWA and Other International Agencies	185	165	675
Trust Fund	--	--	30
TOTAL:	799	506	2,807

Source: *Data obtained from the World Bank.

Where more than one estimate was given, the lowest figure was utilized.

-- Data not available

JGREEN: ANE/NE/DP: x6-4511

REPUBLIC OF YEMEN ECONOMIC OVERVIEW
April 1994

Macroeconomic Overview. The formation of the Republic of Yemen in 1990 brought together the People's Democratic Republic of Yemen and the Yemen Arab Republic, two distinct economies. Yemen's political unification has been reinforced by free Parliamentary elections and the adoption of a largely open market-based economic system. Yemen has a population of 13 million.

The economy's performance since unification has been weak. Major economic problems continue to face the Republic of Yemen (ROY). In part, exogenous shocks including drought, the loss of remittances and financial inflows from the Gulf region and the former Soviet Union, the absorption of one million expatriate Yemenis, and the cost of unification have compounded earlier economic policy shortcomings and are reflected in the severity of Yemen's economic difficulties. A large fiscal imbalance produced an estimated inflation rate of 52.6 percent in 1993. A rapid depreciation of the parallel market exchange rate resulted in a parallel rate of YRs 46.7 = US$1 in 1993, which contrasted starkly with the official rate of YR 12 = US$1 for the same period. Current government expenditures were estimated at 47.9 percent of GDP in 1993 while total revenue was estimated at 25.2 percent during that same period. The overall deficit was an estimated 22.7 percent of GDP in 1993. The deteriorating balance of payments, including debt servicing obligations, has led to large arrears.

Total GDP increased 5.8 percent in 1992 and decreased slightly to 5.2 percent in 1993. Per capita GNP in 1993 was an estimated $310, a decrease from $356 in 1991. In 1992, Gross National Savings decreased to 3.9 percent of GDP while Domestic Investment increased to 21.2 percent. Higher economic growth is needed to redress low real per capita income and high unemployment. A revival of private activity is essential to the needed reduction in public sector overstaffing.

Yemen continued to have a negative trade balance in 1993 ($936 million) and that trend is expected to continue to a projected $1,009 in 1994. In 1993, exports were estimated to increase to $1.0 billion and are expected to reach $1.56 billion in 1994. Imports are projected to decrease from $1.96 billion in 1993 to an estimated $1.79 billion in 1994.

Estimated gross external debt continued to increase in 1993, reaching $8.8 billion and is projected at $8.75 billion in 1994. The IMF projects that debt will increase slightly through 1995, reaching approximately 210 percent of GDP or an estimated $8.94 billion.

The impact on the economy of Yemen's stance in the Gulf war has been great. The loss of remittances, the return of emigrant workers, rising unemployment, and the loss of oil revenues have added to Yemen's economic instability. The ROY has sought to absorb and curb unemployment by launching public sector work projects. Government programs to absorb redundant labor from the public enterprises and the hiring of some returnees have raised government employment levels sizably over 1992-93.

Donor Involvement in Yemen.

International Monetary Fund (IMF): Phase I of the joint UNDP/IMF technical assistance program to strengthen Yemen's economic and financial management has been initiated. The ROY is in the final stages of approving the projects to be included in Phase II. The expected cost of both phases is $5.3 million. The missions completed and planned under Phase I include: Oil revenue accounting, survey of computerization needs, tax system and customs administration review, and the assessment of real sector data needs. Previous Fund missions to establish the joint program include the assessment of technical assistance needs and program formulation.

World Bank (IBRD): IBRD assistance to Yemen has been directed toward the development of basic institutions, physical infrastructure, increased production, and toward assisting the ROY in its efforts to combat poverty. As of September 1993, the IDA had credited $982 million (net of cancellation) toward these goals, of which $350 million was undisbursed. Discussions for a possible structural adjustment credit and assistance are underway, to establish a social safety net. IDA's Yemen portfolio consists of 27 projects.

For FY93, a Basic Education and a Family Health project were approved. For FY 94-96, projects are planned to focus on infrastructure needs such as sewage and energy programs. However, lending is conditional on progress made in the restoration of macroeconomic stability and economic growth.

United States Agency for International Development: Yemen's stance in the Gulf War compounded by the problems experienced as a result of the unification, resulted in the loss of aid and remittances. USAID/Yemen funding and staffing were reduced, and the program scope narrowed to humanitarian and human resource development projects. Yemen's highly successful April 1993 parliamentary elections were a key factor in a U.S. policy change lifting the State Department's cap on U.S. economic assistance. USAID programming now includes health, population, women in development, development training and democratic institutions.

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Yemen: Selected Economic Indicators, 1989-94

04/12/94	1989	1990	1991	1992	Est. 1993	Proj. 1994
NATIONAL INCOME						
Per Capita GNP	526.0	534.0	356.0	324.0	310.0	..
Real GDP Growth (% change)	-3.7	-3.9	-4.2	5.8	5.2	..
INVESTMENT & SAVINGS						
Gross Fixed Investment/GDP (%)	17.7	16.9	16.3	21.2	..	..
Gross National Savings/GDP (%)	-2.3	12.8	-2.5	-3.9	..	..
PRICES, EMPOYMENT						
Consumer Price Index (% change, end-year)	..	33.5	44.9	51.9	52.6	..
EXCHANGE RATE (YR1/U.S.$)						
Official Rate	9.76	12.01	12.01	12.01	12.01	..
Parallel Rate (period average)	..	14.59	25.41	33.38	46.71	..
MONEY						
Money Supply (M-2) Growth (%)	4.5	32.6	10.0	24.3	32.0	..
BALANCE of PAYMENTS (m. US$)						
Current account Balance	-314	-283	-928	-1,581	-1,344	-705
Exports f.o.b.	1,352	1,410	1,200	933	1,004	1,564
Imports c.i.f.	-1,726	-1,818	-1,836	-2,119	-1,964	-1,787
Net Service	-506	-905	-787	-806	-803	-888
Net Transfers	371	914	370	315	322	329
Capital Account Balance	21	-106	-126	10	107	-404
Overall Balance	-239	-196	-675	-1,236	-936	-1,009
DEBT						
Debt Owed to USG ($ million)	..	6.2	6.1	6.0	5.9	..
Gross External Debt ($ million)	2,474.1	8,331.6	8,608.3	8,544.1	8,550.0	8,750.0
As % of GDP	194.7	140.5	198.2	197.4	201.2	205.9
Debt Service as % of Exports of Goods and Services	..	5.7	7.3	..	..	..
PUBLIC SECTOR (% of GDP)						
Revenue	35.5	28.5	34.4	27.0	25.2	..
General Gov. Expenditure	88.5	49.9	47.0	47.7	47.9	..
Overall Deficit (excluding Grants)	-21.0	-21.4	-12.6	-20.7	-22.7	..
Grant Financing	..	19.8	14.2	20.6	..	..
Domestic Financing	10.0	11.6	6.5	17.7	19.4	..
Foreign Financing	10.0	8.2	7.7	2.9	2.9	..
SOCIAL INDICATORS						
Population Growth Rate (excluding Returneees)*	3.2	3.5	1.1	3.9	3.1	..
Infant Mortality (per thousands)*	114.0	112.0	109.0	..	109.0	..
Literacy Rate*	..	62.0	..	..	..	..

Source: Data obtained from the International Monetary Fund.

*Data obtained from the World Bank.

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