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STRUCTURAL ECONOMIC ADJUSTMENT IN THE MIDDLE EAST: A COMPARATIVE ASSESSMENT

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Structural Economic Adjustment in the Middle East: a Comparative Assessment

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Structural adjustment programmes have been adopted in the Middle East (1) since the early 1980s. Section 1 of this paper explains the trend towards structural adjustment emphasizing the role of the external constraint. A classification of structural adjustment programmes follows: sections 2 and 3 are devoted to two different approaches to structural adjustment, that we describe as "multilateral" and "national", according to the role played by multilateral financial institutions. Sections 4 and 5 cover recent economic developments in the countries which have adopted the "multilateral" and the "national" structural adjustment. Section 6 is devoted to prospects for structural economic reforms.

1. Explaining structural adjustment

Explanations for the trend towards economic liberalization belong to two main lines of analysis: the first one emphasizes domestic social factors while the second one emphasizes the external financial constraint.

The explanation giving prominence to the social structure of developing countries (where state bureaucrats and the commercial bourgeoisie are supposed to share a strong interest in opening up the economy) is unsatisfactory (2). The explanation emphasizing the external financial constraint is much more helpful.

During the second half of the 1970s massive capital inflows (and, in particular, huge official unrequited transfers) had a strong impact on the economic structure of the region, encouraging the expansion of the public sector. Given the large inflow of private and official unrequited transfers, the recourse to commercial loans was limited. Therefore, the 1982 international debt crisis did not have a deep impact, except for Morocco which first rescheduled its foreign debt in 1983. An essential role in limiting financial pressures was long played by Arab and Soviet financial assistance.

After the 1986 oil price collapse both private and official unrequited transfers declined; therefore, the recourse to commercial loans increased. State budgets were then hurt by the simultaneous decrease in revenue (declining foreign grants) and increase in expenditure (growing debt service). Macroeconomic adjustment was unavoidable; however, the need for more radical changes rapidly emerged. Adjustment measures were therefore included in structural economic reform programmes.

Even if this process was common to the entire region, it started in the Maghreb (cp. Table 1). Morocco was the first regional country to use IMF resources (structural adjustment started in 1983 and accelerated in 1985), followed by Tunisia (1986) and Algeria (1989). After the 1987 abortive attempt at IMF-supported structural reforms, Egypt re-launched structural adjustment in 1991. Jordan started its structural economic reforms in 1989 but the programme was interrupted by the regional crisis and it was re-launched in 1992.

Different paths may be followed to implement structural economic changes. A simplified classification of structural adjustment programmes may be built according to the relations with the International Monetary Fund (IMF) and, more generally, the multilateral financial institutions. In this paper we shall describe as "multilateral" a programme devised in cooperation with the IMF and the World Bank and (if necessary) supported by multilateral debt rescheduling. On the other hand, we shall describe as "national" a programme devised only at national level and often explicitly aimed at avoiding "interferences" from multilateral financial institutions.

These two kinds of programme may mark different phases of structural adjustment, as in Algeria (see below, section 5). The choice between "multilateral" and "national" programmes is dependent upon the strength of the external financial constraint and the economic structure of the country. Opposition to "multilateral" programmes is particularly strong in countries whose economic structure is largely built upon "socialist criteria"; these countries adopt the "multilateral" programme only when no alternatives are available, given the strenght of the external financial constraint.

2. "Multilateral" structural adjustment

"Multilateral" structural adjustment aims at transforming an inward-oriented productive sector in an outward-oriented one. Local production must therefore become internationally competitive. Relevant economic reforms include: price liberalization, adoption of a realistic exchange rate, import liberalization, privatization, etc. The rapid expansion of an entrepreneurial private sector and the simultaneous withdrawal of the State from the productive sector are stressed. Public enterprise reform includes the liquidation of non-viable enterprises and a privatization programme, usually open to both local and foreign investors.

During the years the design of "multilateral" programmes has slightly changed, in particular with respect to social aspects. After negative experiences in a number of countries (where social and political tensions led to the interruption of the "multilateral" structural adjustment), "multilateral" programmes made room to social measures (job retraining, social security systems, etc.) aimed at mitigating the negative social effects of structural adjustment programmes.

Being the first ones to launch structural adjustment, Maghreb countries did not include these social measures in their "multilateral" programmes; on the contrary, the Egyptian programme included the institution of a Social Fund while the Jordanian programme included the institution of an Employment and Development Fund.

3. "National" structural adjustment

"National" programmes agree that greater reliance on market-based allocation mechanisms is required to increase efficiency. However, "national" programmes opt for a very gradual, "controlled", transition to a market economy, stressing the risk of raising social tensions. In order to freely determine the path and the speed of structural adjustment, "external interferences" must be avoided. Hence, "multilateral" programmes are rejected.

"National" programmes are usually adopted by countries whose economic history contains a "socialist" phase. The larger the role played by the State in the economy, the greater the risk of social tensions during structural adjustment. Public enterprise efficiency is enhanced by the introduction of managerial autonomy but public ownership is maintained. Therefore, "national" programmes reject both the liquidation (which implies redundancies) of non-viable enterprises and privatization. In the region, only Algeria and Syria adopted the "national" structural adjustment programme (see below, section 5).

Given the relevance of the external financial constraint, the viability of a "national" programme requires an appropriate external debt policy. For instance, in order to avoid multilateral debt reschedulings, Algeria resorted to import compression and bilateral refinancings; as we shall see below (section 5), in 1994 the failure of this debt policy forced Algeria to adopt a "multilateral" structural adjustment programme.

4. Current status of "multilateral" programmes

Three countries are currently implementing IMF programmes (Algeria, Egypt and Jordan) while other two (Morocco and Tunisia) have already completed their structural adjustment programmes (table 1).

Exchange regime liberalization is a good indicator of progress in structural adjustment. Since 1993 Morocco and Tunisia have accepted the obligations deriving from the article VIII of the IMF Statute, that is currency convertibility for current international transactions. Egypt applies a *de facto* current convertibility; Algeria, during the first phase of its "multilateral" structural adjustment, set current convertibility as a target for the end of 1992. However, the worsening political crisis and the switch in July 1992 to a "national" programme thwarted this plan. Jordan's acceptance of article VIII seems imminent, given that nearly all relevant restrictions have been eliminated.

However, full convertibility, that is the removal of capital controls, is a long way off. Capital markets are underdeveloped in the region; therefore, the recent huge increase in capital flows into emerging equity markets and the so-called "privatization of country risk" (3) have missed out the Middle East. For instance, the sectorial distribution of international banks' exposure to the region (table 2) registered limited changes in the last decade; moreover, in some cases these changes were in the wrong direction (that is, claims on private sector decreased). On the contrary, banks' exposure to Latin American and Asian developing countries decisively shifted from public to private sector (the same happened, but on a more limited scale, in Turkey which launched a "multilateral" structural adjustment programme in 1980; table 1).

The only relevant exception is Morocco, which currently offers to foreign investors the most interesting opportunities. Morocco's structural adjustment programme was launched more than a decade ago and it was carried out rather radically. Moreover, after the end of the programme, structural economic reforms were not interrupted; on the contrary, the privatization programme accelerated in 1993, attracting a growing inflow of foreign investments.

Tunisia's structural adjustment has been pursued more gradually (privatizations, for example, are proceeding slowly); therefore, foreign investments have increased but they are still directed to traditional sectors: in 1992 and 1993 energy sector absorbed 72 and 90 per cent, respectively, of foreign direct investments.

Having already completed their "multilateral" programmes, Morocco and Tunisia are facing a double challenge: the preservation of macroeconomic balances and the continuation of structural economic reforms. The relevance of macroeconomic balances is exemplified by Turkey's recent experience: in 1994 a prolonged fiscal disequilibrium led to a financial crisis which required a new IMF-supported programme, nine years after the conclusion of the previous one (table 1). Continuation of structural economic reforms will be supported by the Euro-Maghreb partnership agreements currently negotiated with the European Union.

Egypt's structural economic reforms are at the crossroads. External financial constraint is declining given the excellent level of international reserves and the imminent conclusion of the 50 per cent debt service reduction agreed by the Paris Club in 1991. The external constraint relaxation implies a diminishing pressure for the completion of "multilateral" structural adjustment. Moreover, relations with the IMF are worsening given the slow implementation of a number of structural reforms (privatizations, above all) and the exchange rate stability (sharply criticized by the IMF).

Egyptian authorities are facing a complex policy choice. Export promotion requires a strong devaluation of the Egyptian pound, whose exchange rate with the dollar has been stable since 1991. On the other hand, the de-dollarization of the economy requires high interest rates and a stable exchange rate. This policy choice is particularly complex in a country with a huge stock of flight capital, which will be repatriated if appropriate measures are taken (on this issue see below, section 6).

Jordan's new IMF-supported programme intends to strengthen structural economic reforms. It includes: further tax reforms (the general sales tax came into force last July, one and a half year later than originally planned); acceleration of public enterprise reform, including privatization; new incentives for domestic and foreign private investment.

The 1992-93 debt-buybacks at a substantial discount agreed with Russia and Brazil, and the 1993 debt and debt service reduction agreed with commercial banks did not sufficiently reduced the external constraint: at end-1993 external public debt was still equal to 134 per cent of GDP. However, the external financial constraint will further decline after the debt cancellations promised by the United States and other countries after the joint Israeli-Jordanian declaration of last August.

This prospect does not bode well for the implementation of the new programme. However, the continuation of economic reforms will be supported by peace, which improves prospects for regional economic cooperation and therefore provides incentives for regional convergence of economic policies.

5. "National" programmes in the Middle East: Algeria and Syria

The key issue relating to "national" programmes is their viability. Therefore, this section follows in some details the recent experience of the two regional countries which adopted a "national" structural adjustment programme.

Algeria After independence (1962) Algeria chose the socialist development model, emphasizing the role of heavy industry. After the oil shocks of the 1970s, available resources increased: investment accelerated, reaching a peak in 1978 when gross investment was equal to 52 per cent of GDP. At the same time capital inflows increased (in the 1970-79 period, the external current account registered a cumulative deficit of $10.5 billion) and medium-long term external debt grew from less than $1 billion at end-1970 to $17 billion at end-1980.

After the oil price collapse, the situation became untenable: in 1986 the external current account deficit was equal to 5 per cent of GDP, debt service ratio jumped to 60 per cent, gross investment declined by 15 per cent in real terms.

Algerian authorities adopted an economic reform programme, whose first stage (1987) consisted in the transformation of state farms into private cooperatives and individual farms. The economic reforms accelerated after the October 1988 clashes, setting up a pattern of deep mutual influences between economic changes and political tensions.

Algerian economic reforms may be divided in four phases: the early attempt at "national" structural adjustment (1986-88), the switch to "multilateral" structural adjustment (1989-1991), the return to a "national" programme (1992-1993) and the recent return to a "multilateral" programme (1994).

Both "national" and "multilateral" programmes aim at increasing the role of market-based mechanisms, opening up the economy or, in a more recent jargon, carrying out the transition to a market economy. For instance, key legislation was passed during the "national" phases, as the 1988 law establishing public enterprise autonomy and the new Investment and Commercial codes adopted in 1993. However, the programmes differ as for path and speed. The differences clearly emerge during the last two phases: the "national" programme adopted by the Abdesselam government (July 1992 - August 1993) and the new agreement reached with the IMF in 1994.

Complaining about the previous "anarchic" structural adjustment, the Abdesselam government aimed at a "controlled" transition to a market economy. Freedom from "interferences" (that is, from IMF conditionality) was considered essential. New bilateral refinancings (after those reached in 1991 with the Italian government and in 1992 with international banks) were not available while multilateral debt rescheduling would have required an agreement with the IMF. Therefore, meeting external obligations was absolutely necessary.

In order to finance debt amortization ($7 billion per year in 1991-1993) a large current account surplus was required. Given the rigidity of export revenues (non-hydrocarbon exports amount to less than 5% of total exports; oil and gas exports are dependent on international prices), the Abdesselam government resorted to import compression.

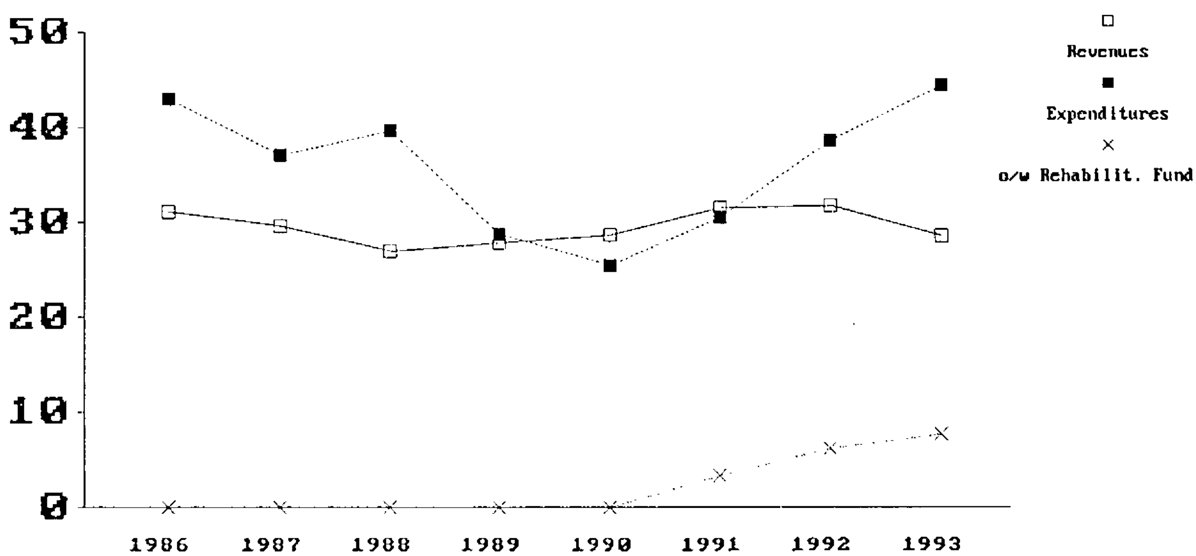
Economic performance did not improve (real per capita GDP declined by an average 2.4 per cent in 1992-1993 after an average 2.5 per cent decline in 1986-1991) while structural reforms were suspended and, in some cases, reversed.

New administrative controls on exchange and trade regimes were introduced. The exchange rate was stabilized in nominal terms and foreign exchange allocations were re-centralized (after the 1991 liberalization, which however was not fully implemented given foreign exchange shortages) through the creation of an ad-hoc Committee. Trade liberalization was also reversed: imports of "luxuries" were banned while imports of many "non-strategic" commodities were allowed only if financed by the importer's own foreign exchange.

Foreign exchange allocations favoured public enterprises, which benefitted by an hidden subsidy given that foreign exchange was sold at an unrealistic exchange rate. Private sector was hindered, postponing the expected supply response and prolonging economic recession. Moreover, the fact that the Committee's approval was required for every import operation weakened public enterprise autonomy.

This "national" programme had a negative impact on public budget. Given the stabilization of nominal exchange rate, hydrocarbon revenues (about two thirds of total) were fixed in terms of dinars. Actually, revenues decreased while expenditures increased, in particular the allocations to the Fond d'assainissement, the fund supporting public enterprise rehabilitation (figure 1). These allocations grew from 3 per cent

Figure 1. Algeria: central government budget (percentage of GDP)



of GDP in 1991 to 6 per cent in 1992 and 8 per cent in 1993. Central government budget shifted from a surplus equal to 1 per cent of GDP in 1991 to a deficit of 7 and 16 per cent of GDP in 1992 and 1993, respectively. In this phase, therefore, the "national" programme opted for a strong balance of payments adjustment, allowing a deterioration of public budget.

Table 3 compares two balance of payments scenarios provided by Algerian authorities. The first one dates back to the Abdesselam period while the second one follows the 1994 agreement with the IMF. It is evident that the Abdesselam government planned a strong import compression to generate the current account surplus necessary to finance debt amortization.

The implementation of the first scenario would have contained external debt growth (the end-1997 medium-long term debt was forecasted at $25 billion) but the debt service ratio would have been very high, slowly declining from 76 per cent in 1993 to 52 per cent in 1997. Moreover, these projections were based on an optimistic outlook for hydrocarbon exports (table 3); after the decline in oil price which started in autumn 1993, the programme became untenable. International reserves declined and meeting external obligations was impossible.

The failure of "national" programme was followed by the return to "multilateral" structural adjustment. This time, the "multilateral" programme included the recourse to both IMF credits and multilateral debt reschedulings.

The new "multilateral" programme aims at accelerating the transition to a market economy. Strong structural adjustment measures are planned or have already been implemented. Official exchange rate was devalued by 30 per cent, consumer price subsidies were drastically reduced. The programme envisages trade and exchange liberalization (elimination of most import and export restrictions; creation of an interbank foreign exchange market), a progressive shift of monetary policy from direct to indirect control, the acceleration of public enterprise reform (privatizations, open to foreign investors, will be allowed) while a new social security system will support dismissed workers: the Industrial Restructuring and Participation minister recently stated that about 250,000 workers could be made redundant given that public enterprise overstaffing amounts to 30 per cent of work force (4).

As for macroeconomic adjustment, the new "multilateral" programme opts for a strong public budget adjustment, allowing a deterioration of external current account (table 3). This adjustment strategy is therefore the exact reverse of the previous one.

Under a new definition, 1993 Treasury deficit is estimated at 9.2 per cent of GDP; the new programme forecasts a 5.7 per cent deficit in 1994 and a 1.4 per cent surplus in 1995. On the contrary, external current account will deteriorate: the debt reschedulings already agreed (with the Paris Club; a agreement was signed last June) or forthcoming (negotiations with international banks are at an early stage) strongly reduce actual external obligations, allowing an increase in imports and, consequently, a large current account deficit (cp. the second scenario in table 3). Actual debt service ratio will decrease from an estimated 68 per cent in 1993 to 48 per cent in 1994 and 29 per cent in 1997. Of course, external debt will grow more rapidly than in the scenario made during the Abdesselam period: the end-1997 medium-long term debt is now forecasted at $33 billion.

1994 "multilateral" programme has already achieved a number of targets: international reserves are on the increase (from $1.5 billion at end-1993 to $2.3 billion at end-July 1994, gold excluded); inflation, which increased after the reduction in subsidies, is decelerating; budget deficit is smaller than originally forecasted. However, GDP growth (which, as in 1993, is hindered by a severe drought) remains disappointing, given the reluctance to invest caused by the difficult political and security situation.

Syria Syria is a neat example of "national" strategy: since its launching in 1986, Syria's structural adjustment has never been supported by IMF credits and Syria is even accumulating arrears to the World Bank.

The structure of Syrian economy has been heavily influenced by political and military factors. Military expenditure has long absorbed one third of public expenditure and a large share of scarce foreign exchange. The economic system became strongly centralized, characterized by public enterprise predominance, administered prices, import compression, foreign exchange rationing, a system of multiple and generally overvalued exchange rates, a passive monetary policy oriented to the financing needs of the State sector. Military expenditure and, more generally, public budget became largely dependent on foreign financial assistance, coming from Arab oil-producers, the former Soviet Union and Iran.

After the 1986 oil price collapse, which decreased Syrian foreign exchange receipts both directly (declining oil exports) and indirectly (declining Arab financial assistance), Syria adopted some adjustment measures. Administered prices were sharply raised to compress domestic consumption (in the 1986-88 period consumer prices increased at an annual average rate of 43 per cent); the exchange rate system was simplified and in January 1988 the official rate was devalued by 65 per cent; in 1987 the retention quota for private exporters was raised from 50 to 75 per cent.

The 1988 expiry of the ten-year Baghdad agreement (under which Arab aid to Syria should have been equal to $1.85 billion a year; actual aid disbursement from all donors progressively declined from an annual average of $1.7 billion in 1979-81 to $0.5 billion in 1988) and the collapse of the former Soviet Union strengthened the external constraint. At end-1989 total external debt stood at $16.9 billion, of which $0.4 billion in arrears (according to the probably underestimated World Bank statistics). Moreover, international reserves were rapidly declining: at end-June 1989 they stood at only $126 million (gold excluded; no figure has been released since that date), equal to less than one month of imports.

However, external constraint was less severe than it appears from these figures. Syrian economy was largely inward-oriented and its financial relations with industrial countries were limited; therefore the negative impact of the accumulation of arrears was moderate. Furthermore external debt distribution by creditor was very favourable. The former Soviet Union was by far the largest creditor: of course, no agreement with the IMF was required to reschedule this debt (5).

Moreover, external financial constraint was relaxed by the August 1990 regional crisis. According to Syrian statistics, in the 1990-92 period official unrequited transfers were equal to

$650 million (table 4); donor sources estimate official development assistance at more than $1 billion in 1990-91 only. In any case, the external financial constraint was significantly weakened. Moreover, financial support did not stop after the liberation of Kuwait: according to recent estimates (6), in 1992-93 almost $4 billion in concessional loans was granted to Syria, mainly by Gulf countries.

The large inflow of financial assistance, together with other factors (the rapid increase in oil production, which is now close to 600,000 b/d compared to less than 300,000 b/d in 1988; favourable weather conditions after recurrent droughts), caused the real GDP to grow at an average annual rate of 9.6 per cent in the 1990-92 period (1993 real growth is estimated at 8-10 per cent). Macroeconomic balances improved: including grants, public budget was in surplus in 1990-91 and external current account registered a cumulative surplus of $2.5 billion in the 1990-92 period (table 4).

These circumstances allowed Syrian authorities to proceed with their "national" structural adjustment programme. Recent progress consists in: a) a revision of the multiple exchange rate system: currently, the two key rates are the official one (Syrian Pounds 11.225 = US$ 1.00) and the so-called "rate in neighbouring countries" (Syrian Pounds 42.5 = US$ 1.00) which acts as a proxy for parallel rate; b) a *de facto* devaluation of the Syrian Pound (S£) through the progressive transfer of transactions from the official to the neighbouring country rate (7); c) the approval in May 1991 of a new Investment Law (Law 10/91) to provide incentives for private investors; d) the easing of restrictions on private sector imports; e) the revision of company income tax, with a marked reduction in the marginal rate.

Law 10/91 has been very successful as for financial commitments: total approved investment amounts to about S£ 174 billion - more than $4 billion at the neighbouring country rate - according to recent official statements (8); less recent figures (9) evaluate realized investment at S£ 70 billion. This law (which applies to both local and foreign investors) allowed the partial repatriation of flight capital (see below, section 6). However, the implementation of Law 10/91 has been less satisfactory as for sectorial allocation of investment. Private investment was directed mainly to the service sector and above all to transportation (imports of transport equipment increased from S£ 1,042 million in 1990 to S£ 2,035 million in 1991 and to S£ 5,154 million in 1992): the law's provision for duty free vehicle imports has been exploited to tackle inadequate public transport and suppressed demand for cars (10).

Private investment grew from 34 per cent of total investment in 1985 to 66 per cent in 1992 but these figures are strongly influenced by the private transport boom which followed Law 10/91: in 1992 transport equipment represented 24 per cent of total gross capital formation (7 per cent in 1985). Among other factors, private sector growth is hindered by the difficult access to bank credit: at end-June 1993 claims on non-financial public enterprise held by Commercial Bank of Syria and the other four specialized banks were equal to 67.8 per cent of total claims on economic sectors (that is, on the private sector, the mixed sector and the non-financial public enterprise sector), while at end-1985 the same ratio was equal to 70.5. Financial sector reform was not launched. However, after the recent collapse of some unlicensed finance houses, a law establishing a stock exchange is being studied by the government; its approval may be followed by a law authorizing private banking (11). Future economic reforms include the exchange rate unification, which implies a strong devaluation. However, given its impact on consumer prices, this measure requires a preliminary review of the subsidy system.

The shift to a "multilateral" programme seems unlikely given the relaxation, current and prospective, of the external constraint. Debt to international banks has been already reduced: according to the statistics published by the Bank for International Settlements, the exposure to Syria of reporting banks has declined from a peak of $1.3 billion at end-June 1987 to $0.6 billion at end-March 1994. Moreover, negotiations with Russia are in progress to reschedule and partially cancel Syrian debt to the former Soviet Union (12).

Other factors, however, may induce the acceleration of structural economic reforms. Macroeconomic improvements are fragile: national accounts figures for 1992 show a savings-investment gap equal to 11.5 per cent of GDP, a level close to the one registered in the 1982-88 period. The savings/GDP ratio (no data on GNP are available), which reached 16 per cent in 1989 and 1990, fell to 10 and 12 per cent in 1991 and 1992, respectively.

Moreover, the factors which caused recent macroeconomic improvement may be temporary in nature: financial assistance from Gulf countries is constrained by their current financial difficulties while Syria's oil production seems close to its peak (13). Macroeconomic performance has already worsened: after the 1989-91 surplus, Syria's trade balance shifted to deficit in 1992 (table 4) and 1993 (when exports reached $3.1 billion and imports $3.8 billion). Moreover, 1994 unfavourable weather conditions reduced real GDP growth. The most likely scenario seems to be the continuation of "national" structural adjustment but at an increasing speed. Progress in peace negotiations, encouraging regional economic cooperation, will further strengthen the need for Syria to accelerate structural economic reforms (14).

The Syrian experience has been largely different from the Algerian one thanks to a less severe external constraint and a more stable political situation. Syria's "national" programme has been successful in reforming the economic structure without increasing political tensions. As we noticed above, however, this success is largely due to exogenous factors. Moreover, key economic reforms as exchange rate unification and public enterprise reform have not yet started. A positive assessment of "national" programmes grounded on Syria's experience is therefore premature.

6. Concluding remarks

In the last decade "multilateral" programmes slowly spread through the entire region: two countries (Morocco and Tunisia) have already completed their "multilateral" programmes, reaching current convertibility; other two countries (Egypt and Jordan) are currently engaged in the implementation of "multilateral" programmes and they will shortly reach current convertibility. Finally Algeria, one of the two countries rejecting "multilateral" structural adjustment, has recently launched an IMF-supported programme.

Future prospects for structural economic reforms in the region will be largely determined by the external financial constraint and the stage already reached by economic reforms.

The future relevance of external financial constraint depends on the stock of external debt, but also on the stock of flight capital. The latter is particularly relevant in the North Africa and Middle East region, which has the world highest ratio of flight capital to GDP (about 100 per cent).

Improved economic performances and policies provide incentives for the repatriation of flight capital, relaxing the external constraint. This trend is already evident in Egypt; however, up to now these capital inflows have been directed to portfolio investments (Egyptian public bonds offer very high real interest rates, while the exchange rate is stable) rather than to the productive sector.

The following table visualize the current status of external financial constraint and structural economic reforms. The first three rows assess future external constraint by: a) the stock of flight capital; b) the stock of external debt; c) the market assessment of country risk (according to the external debt quotations on the secondary market). The fourth row assesses the current status of structural economic reforms.

	1	2	3	4
stock of flight capital	Morocco Tunisia	Algeria	Jordan	Egypt Syria
stock of external debt	Jordan	Syria	Algeria Egypt Morocco	Tunisia
market assessment	Algeria Egypt Syria	Jordan	Morocco	Tunisia
structural reform status	Syria	Algeria Egypt Jordan	Tunisia	Morocco

Giving to each variable the marks indicated in the table, the following results are obtained:

12 marks	Tunisia
11 marks	Morocco
10 marks	Egypt
8 marks	Algeria

8 marks Jordan

8 marks Syria

From this classification strengths and weaknesses of regional countries emerge. Good progress in structural reforms and a viable debt position determine Tunisia's very good score, notwithstanding the limited prospects for flight capital repatriation (according to the "residual method", Tunisia's stock of flight capital is estimated at $2.5-3 billion).

Morocco's strenght (progress in structural reforms, favourable market assessment) are Egypt's weaknesses but Egypt's debt position is favourable (while Morocco's debt burden is still heavy) and prospects for flight capital repatriation are very good (Egypt's stock of flight capital is estimated at $70-80 billion).

The other three countries (Algeria, Jordan and Syria) are currently unable to meet external obligations. However, Jordan's prospects for flight capital repatriation are good and its debt overhang is decreasing. Algeria's relative strength lies in its limited debt burden, but progress in structural reforms and prospects for flight capital repatriation are modest. Syria's massive stock of flight capital (which is estimated at $25 billion) offers favourable prospects, which however are limited by its modest progress in structural reforms.

(1) The countries considered here are Algeria, Egypt, Jordan, Morocco, Syria and Tunisia; Israel and Lebanon are not covered due to their peculiar circumstances. Structural reforms are scarcely relevant in Lebanon, whose main economic issue is fiscal adjustment. Israel's low external financial pressures and high per capita income make its structural economic reforms more comparable to deregulation in Western industrial countries that to the structural economic reforms launched in other regional countries.
(2) Cp. Timothy Niblock, "The Egyptian Experience in Regional Perspective: International Factors and Economic Liberalization in the Arab World" in Louis Blin (ed.), L'économie égyptienne. Libéralisation et insertion dans le marché mondial, Paris 1993, pp. 35-70.
(3) See Richard O'Brien, "Privatised Country Risk and the IMF", Amex Bank Review, vol. 21, no. 5, June 20th 1994, pp. 5-8.
(4) BBC, Summary of World Broadcasts, MEW/0350, 13 September 1994, p. WME/1.
(5) Soviet figures estimate debt reschedulings agreed with Syria at $1.6 billion in the 1986-89 period; Izvestiya, 2 March 1990, morning edition; cp. IMF-WB-OECD-EBRD, A Study of the Soviet Economy, Paris 1991, vol. 1, p. 118.
(6) Middle East Economic Digest, 21 January 1994, p. 3.
(7) Official balance of payments statistics use an exchange rate of S£ 24.92 per US $ for 1991 and of S£ 28.26 per US $ for 1992; see Central Bank of Syria, Quarterly Bulletin 1991-92, vol. 29-30, no. 1-2-3-4, p. 49.
(8) Middle East Economic Digest, 13 May 1994, p. 39.
(9) Middle East Economic Survey, 31 January 1994, p. B2.
(10) Middle East Economic Digest, 9 October 1992, p. 3.
(11) Middle East Economic Digest, 8 July 1994, pp. 32-33.
(12) The Russians recently denied that a 90 per cent reduction had been agreed (cp. the statement by the Russian news agency Itar-Tass reported by BBC, Summary of World Broadcasts, ME/1983, 28 April 1994, p. MED/8).
(13) See Walid Khadduri, "The Oil and Gas Scene in Syria", Middle East Economic Survey, 1 March 1993, pp. A3-A11.
(14) A possible acknowledgment of this point appears in the cooperation agreements that Syria signed with Lebanon in September 1993. These agreements (which were strengthened in September 1994) liberalize the movement of goods and investment between the two countries.

Table 1. Stand-by and extended arrangements provided by the IMF to the region, 1980-1994 (SDR millions)

	Arrangement Period	Amount Agreed	Undrawn Balance: as of 31.7.94	Undrawn Balance: at date of termination
Stand-by Arrangements				
Algeria	5.89-5.90	156		0
	6.91-3.92	300		75
	5.94-5.95	457	412	
Egypt	5.87-11.88	250		134
	5.91-11.92 (1)	278		87
Jordan	7.89-1.91	60		33
	2.92-8.93 (2)	44		0
Morocco	4.82-4.83	281		0
	9.83-3.85	300		0
	9.85-2.87 (3)	200		190
	12.86-4.88	230		0
	8.88-12.89	210		0
	7.90-3.91	100		52
	1.92-3.93	92		74
Tunisia	11.86-5.88	104		13
Turkey	6.80-6.83	1250		0
	6.83-6.84 (4)	225		169
	4.84-4.85	225		56
	7.94-9.95	509	349	
Extended Arrangements				
Egypt	9.93-9.96	400	400	
Jordan	5.94-5.97	128	118	
Morocco	3.81-10.83 (5)	817		681
Tunisia	7.88-7.91 (6)	207		0

(1) Postponed to March 1993 and, subsequently, to May 1993.
(2) Postponed to February 1994.
(3) Cancelled December 1986.
(4) Replaced by the stand-by arrangement of April 1984.
(5) Replaced by the stand-by arrangement of April 1982.
(6) Postponed to July 1992.

Source: IMF, Annual Report, various issues; IMF, International Financial Statistics, vol. XLVII, no. 9, September 1994.

Table 2. Sectorial distribution of international banks' exposure (as % of total; end of period) (1)

	Public Sector		Banks		Non-bank private sector		Unallocated	
	1993	1985	1993	1985	1993	1985	1993	1985
Algeria	20.4	32.4	65.6	15.9	13.9	44.3	0,1	7.3
Egypt	18.8	16.2	32.9	38.2	48.2	41.1	0,1	4.5
Israel	21.4	11.2	26.6	59.2	50.2	22.9	1.8	6.7
Jordan	30.3	26.0	34.1	17.8	35.1	38.1	0,5	18.1
Lebanon	1.7	2.1	20.4	27.1	76.5	68.3	1.4	2.5
Morocco	42.3	34.7	20.1	14.3	37.3	49.0	0,4	2.0
Syria	32.4	2.0	37.6	70.2	28.3	18.6	1.7	9.3
Tunisia	8.1	17.5	36.2	26.0	55.2	47.9	0,4	8.6
memo:								
Argentina	34.4	50.3	17.5	23.2	47.7	25.2	0,3	1.3
Chile	25.9	41.1	34.2	42.6	39.6	15.3	0,3	1.0
Korea (South)	8.5	31.6	63.1	42.7	27.8	24.3	0,7	1.3
Taiwan	4.5	33.0	64.4	33.3	31.0	32.9	0,1	0,8
Turkey	24.3	39.6	41.7	34.7	33.5	22.6	0,4	3.1

(1) The figures, derived from BIS semi-annual international banking statistics, include cross-border claims in all currencies and local claims in non-local currencies.

Source: Bank for International Settlements, The Maturity and Sectoral Distribution of International Bank Lending, various issues.

Table 3. Algeria: balance of payments projections, 1993-97 ($ billion)

1993 forecast	1993	1994	1995	1996	1997
Exports of goods and services	12.04	12.22	13.87	15.63	16.87
of which: hydrocarbons	10.90	10.96	12.46	14.06	15.12
Imports of goods and services	-9.96	-10.29	-11.28	-12.83	-14.64
of which: goods	-8.03	-8.28	-9.11	-10.43	-11.98
Current account	0.18	-0.46	0.18	0.71	0.70

Source: Journal Officiel de la République Algérienne, 26 April 1993 and Banque d'Algérie estimates, as reported in Middle East Economic Digest, 25 June 1993, p. 3.

1994 forecast	1993 (1)	1994	1995	1996	1997
Exports	10.33	8.80	10.22	11.14	12.57
of which: hydrocarbons	9.88	8.30	9.57	10.14	11.17
Imports	-7.77	-9.41	-10.82	-11.61	-12.42
Trade balance	2.56	-0.61	-0.60	-0.47	0.15
Non-factor services, net	-1.09	-1.20	-1.35	-1.36	-1.45
Factor income, net	-1.95	-1.93	-1.94	-1.96	-1.96
of which: interest payments	-2.07	-1.99	-2.02	-2.06	-2.07
Net transfers	1.49	1.67	1.75	1.84	1.92
Current account	1.01	-2.08	-2.14	-1.95	-1.33

(1) Actual.

Source: government figures as reported in Middle East Economic Digest, 15 July 1994, p. 14.

Table 4. Syria: main economic indicators, 1988-92
($ million, unless otherwise indicated)

	1988	1989	1990	1991	1992
GDP (official rate)	16574	18610	23904	28170	33050
(secondary rate) (1)	..	5095	6545	7506	8729
GDP (% change at constant prices)	13.3	-9.0	7.6	11.6	9.6
Oil production (.000 b/g)	270	325	393	477	531
Agricultural production (% change)	35.8	-25.6	19.8	4.3	15.8
Industrial production (% change)	2.8	12.3	9.9	7.0	6.5
Damascus retail prices (% change)	34.6	11.4	19.4	7.7	9.5
Budget surplus (+)/deficit (-) (grants included) as a % of GDP	+1.2	-0.6	+0.3	+1.4	..
Exports, fob (customs figures)	1345	3006	4212	3430	3093
crude oil	326	814	1470	1534	1851
manufactured goods	222	647	588	511	140
private sector	493	1442	1838	1216	657
towards FSU/Russia	391	1074	1376	647	48
Imports, fob (customs figures)	2047	1924	2317	2890	3202
Investment income: debit (2)	461	745	831	1096	1214
Official transfers: credit	537	227	91	238	321
Current account balance (2)	-151	1222	1762	699	55
Long-term loans: amortization (2)	101	789	1146	531	269
Total external debt	16384	16882	16448	16867	16513
bilateral	13357	13881	13046	13069	12599
arrears	695	407	686	1458	1785
S£/US$ (average) (official)	11.225	11.225	11.225	11.225	11.225
(secondary) (1)	..	41.0	41.0	42.1	42.5

(1) The so-called "rate in neighbouring countries".
(2) Cash basis.

Source: Central Bank of Syria, Quarterly Bulletin 1991-92; Opec, Annual Statistical Bulletin 1992; IMF, International Financial Statistics, September 1994; IMF, Balance of Payments Statistics Yearbook 1993; World Bank, World Debt Tables 1993/94.