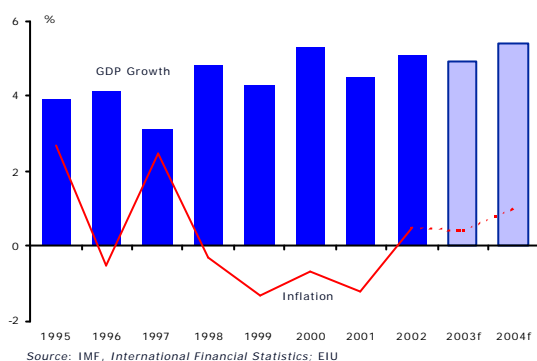
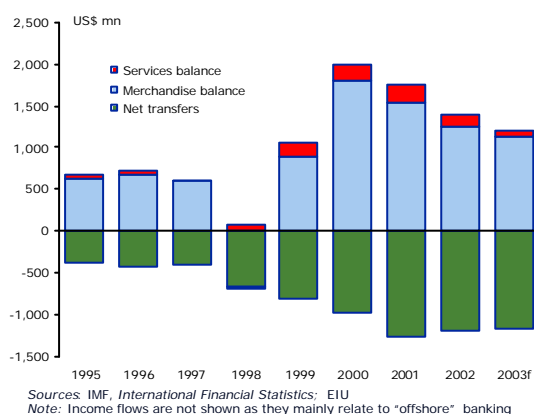


# Country Update: Bahrain

## Investment spending to sustain growth at around 5%



## External position will be balanced this year, but move into deficit in 2004



- Growth is being driven by public spending. As well as housing, power and transport infrastructure, there are some very large projects under way, such as the expansion of Aluminium Bahrain and US\$1 bn worth of infrastructure for Bahrain's financial centre.
- Heavy public spending is producing significant budget deficits, which are normally funded by treasury bills issued to international banks. In recent years, the government has also issued bonds conforming to Islamic principles, which have helped to reinforce Bahrain's pre-eminent position in Islamic banking. In January 2003, the government issued its first "traditional" sovereign bond. There are concerns that continued budget deficits may lead to uncomfortable external debt levels.
- Although oil (including products) contributes only about 16% of Bahrain's GDP, high oil prices have an indirect effect through the spending by other Gulf states on Bahrain's services. Expected lower oil prices next year will therefore have a negative impact, but should be offset by continued public investment.
- Lower oil prices next year will be more significant for the balance of payments than for growth. Bahrain traditionally runs surpluses in merchandise trade and in services, which fund the transfers outflow (representing mainly remittances by expatriate workers). With crude and refined products contributing some 60% of revenue from goods exports, the merchandise surplus is likely to shrink next year.
- A free trade agreement (FTA) with the US is due to take effect in 2005. The US takes 26% of Bahrain's non-oil exports, which should be boosted by this FTA.

## Economic data and debt statistics

Bahrain	1997	1998	1999	2000	2001	2002	2003f	2004f
Economic growth (%)	3.1	4.8	4.3	5.3	4.5	5.1	4.9	5.4
Inflation (yr av, %)	2.5	-0.3	-1.3	-0.7	-1.2	0.5	0.4	1.0
Budget Balance (% of GDP)	-7.7	-7.6	-7.6	0.6	-2.2	-4.0	-4.3	
Current Account (% of GDP) **	-0.5	-12.6	-0.6	10.3	2.1	-1.6	-3.8	
External Debt (US\$ bn)	2.6	2.6	2.8	2.9	3.0	3.8	5.9	
Ext Debt/GDP Ratio (%)	40.7	42.4	42.4	38.4	40.0	49.3	74.2	
Ext Debt/Exports Ratio (%)	27.2	29.7	27.1	21.7	29.1	35.9	53.5	
Short term debt/Reserves (%)	51	55	44	49	42	48		
Debt Service Ratio (Paid) (%)	4.4	5.6	4.8	3.9	4.4	4.5		
Debt Service Ratio (Due) (%)	4.4	5.6	4.8	3.9	4.4	4.5	4.7	
Foreign Exchange Reserves (US\$ bn)	1.3	1.1	1.4	1.6	1.7	1.7	1.8*	
Import Cover (months)	3.5	3.3	4.0	3.7	4.3	3.9		

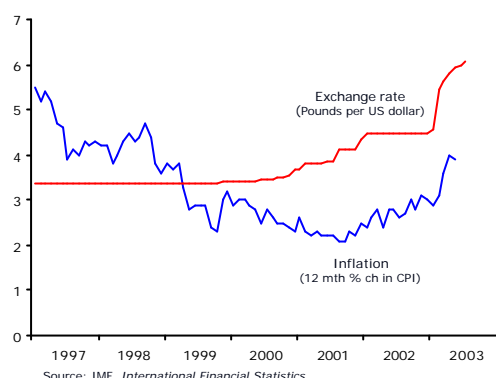
\*: June 2003

\*\* : Current account is distorted by inclusion of income flows relating to "offshore" banking

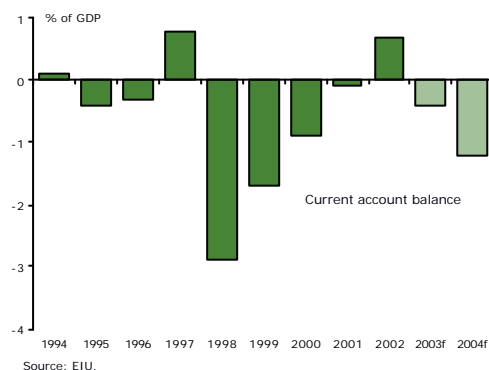
Sources: IMF, Economist Intelligence Unit, ANZ Bank

# Country Update: Egypt

## Inflation pressures have emerged following the float of the pound



## The current account deficit is likely to get worse in 2004 before it gets better



- In recent years the pegged exchange rate was devalued several times, but reserves continued to decline while the pound traded at a big discount in the black market. Finally, on 29 January 2003, the pound was floated, dropping 17% against the US dollar almost immediately, and thereafter continuing to depreciate gradually.
- Inflation, which had been above 20% in the early nineties, fell to benign levels by 2001. Subsequent devaluations and the float have created a pipeline of cost pressures, which are not yet fully reflected in the inflation rate of 3.9% over the year to May 2003.
- Job creation does not match the growth in the labour force, and unemployment is estimated to be around 30% (although the official rate is 11%). It is estimated that economic growth of 8% is needed to meaningfully reduce unemployment and the potential for social instability. There is an ongoing programme of economic reform, aimed at boosting growth, creating jobs and improving living standards. However, the 8% target has thus far proved elusive. Reforms will be supported by a new World Bank/African Development Bank loan of US\$1bn, which will fund improvements to tax collection, poverty reduction and export promotion.
- By late 2002, tourism was recovering from the post-September 11 slump, but then collapsed again because of the war in Iraq. A strong rebound was evident in the 2003 northern summer season, with figures for July and August up 30% on a year earlier.
- Declining oil production and weak tourism income are expected to push the current account into deficit this year. Gas exports offer the prospect of a turnaround, but a meaningful boost is still a year or more away.

## Economic data and debt statistics

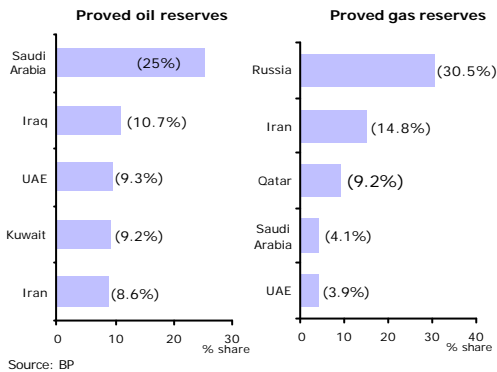
Egypt	1997	1998	1999	2000	2001	2002	2003f	2004f
Economic growth (%)	5.5	4.9	6.3	5.1	3.5	3.0	1.8	3.2
Inflation (yr av, %)	4.6	4.1	3.1	2.7	2.3	2.7	4.2	3.5
Budget Balance (% of GDP)	-0.9	-1.0	-3.0	-3.9	-5.5	-5.8	-7.1	
Current Account (% of GDP)	0.8	-2.9	-1.7	-0.9	-0.1	0.7	-0.4	
External Debt (US\$ bn)	29.9	32.3	30.9	29.0	29.2	28.9	31.0	
Ext Debt/GDP Ratio (%)	39.5	39.6	34.9	30.3	32.7	35.0	45.2	
Ext Debt/Exports Ratio (%)	144	180	158	135	137	140	153	
Short term debt/Reserves (%)	16.0	23.5	29.6	31.3	26.1	23.7		
Debt Service Ratio (Paid) (%)	9.5	10.5	10.8	8.4	9.1	10.1		
Debt Service Ratio (Due) (%)	9.6	10.5	10.8	8.4	9.1	10.1	9.4	
Foreign Exchange Reserves (US\$ bn)	18.7	18.1	14.5	13.1	12.9	13.2	13.6*	
Import Cover (months)	11.6	10.6	8.3	7.1	7.7	8.5		

\*: May 2003

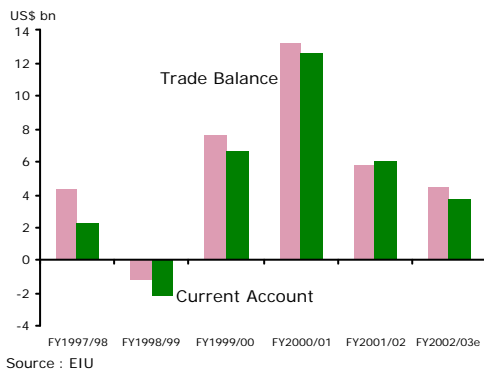
Sources: IMF, Economist Intelligence Unit, ANZ Bank

# Country Update: Iran

## Vast oil and gas reserves (2002)



## High oil prices underpin current account surplus



- President Khatami's popularity has weakened amidst growing disillusionment over the ability to deliver on reforms, as the hard-line conservatives, who hold considerable influence in other power centres, have thwarted reform efforts.
- Relations with the US have deteriorated significantly with Iran being branded part of the "axis of evil" by the US. Iran's nuclear programme has strained ties even further. Tehran is resisting strong pressure from Washington to abandon its nuclear plans. The nuclear issue has also adversely affected relations with the EU and is likely to delay progress on a trade and cooperation agreement.
- US sanctions remain in place and encompass investments from third-country firms. While strong opposition from the region and Europe have made it difficult to enforce these sanctions on non-US firms, current concerns over Iran's nuclear programme and a deterioration in bilateral ties with the US have prompted the US to step-up pressure to discourage investment.
- The economy grew strongly in FY2002/03 with real GDP growth estimated at 7.6%, supported by strong investment spending and public consumption. Growth is forecast to slow in FY2003/04 as political uncertainties, prospects of lower oil prices and possible fall back in production with the recovery in Iraqi supply, cloud the outlook.
- Iran established a unified exchange rate in March 2002. The rial averaged IR7,940 per US dollar between April and December 2002. It has depreciated modestly this year with the rial at around IR8,335/USD on 24 September 2003 compared with IR7,952 at end-December.

## Economic data and debt statistics

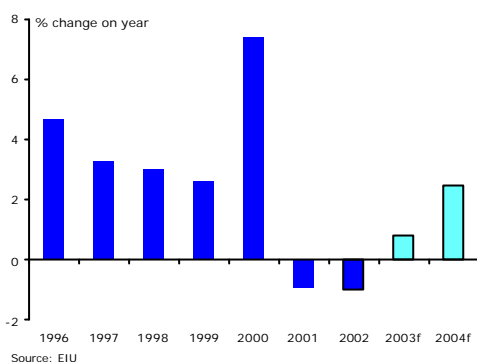
Iran <sup>+</sup>	1997	1998	1999	2000	2001	2002e	2003f	2004f
Economic growth (%)	7.4	3.8	2.0	5.3	5.8	7.6	5.9	3.8
Inflation (yr av, %)*	17.4	17.8	20.1	14.5	11.3	14.3	16.2	15.0
Public Sector Balance (% of GDP)	-1.0	-5.2	-0.2	-0.6	-0.5	-2.2	2.6	
Current Account Balance (% of GDP)	2.4	-3.5	11.9	17.6	7.0	3.3	0.3	
External Debt (USD bn)	11.8	14.0	10.4	7.9	7.2	9.3	9.9	
External Debt/GDP Ratio (%)	12.6	23.0	18.8	11.1	8.4	8.1	8.0	
External Debt/Exports Ratio (%)	59.0	92.5	46.2	26.4	27.0	30.5	34.2	
Short-term Debt/Reserves (%)	66.9	130.9	68.5	29.4	15.2	9.3		
Debt Service Ratio (Paid) (%)	31.3	20.3	20.5	10.3	9.1	4.8		
Debt Service Ratio (Due) (%)	31.3	20.3	20.5	10.3	9.1	4.8	5.2	
International Reserves (USD bn)*	5.0	3.4	5.3	12.5	17.5	22.3		
Import Cover (g & s) (months)*	3.4	2.4	4.0	8.6	10.0	9.8		

+ : Fiscal Years beginning 21 March except otherwise stated  
Sources: IMF, Economist Intelligence Unit, ANZ Bank

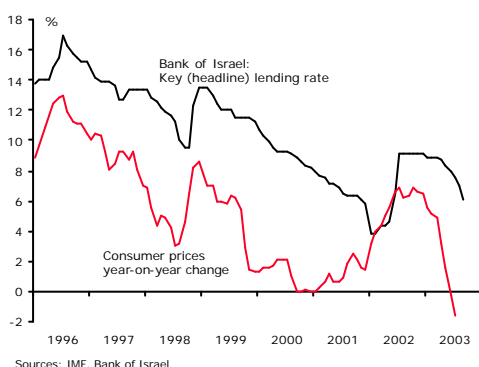
\*: calendar years

# Country Update: Israel

## A modest recovery is expected in 2003



## Inflation has plummeted and interest rates are falling



- The economy has been adversely affected by the technology bust and sluggish international environment, as well as by the direct impact of violence on tourism and investment. Real GDP growth is unlikely to be much above 1% this year and the unemployment rate has risen to almost 11%, its highest level since 1993.
- There is concern about the budget deficit, which reached 4.6% of GDP in 2001 with only a small reduction in 2002. Although the government secured parliamentary approval of a series of fiscal measures in May 2003 despite strong opposition from public sector workers, the deficit is expected to widen again this year. This reflects the adverse impact of weak economic activity on tax revenues, down 8% in January-July 2003 from their year-earlier level. Public sector debt has risen sharply from 92% of GDP in 2000 to 105% in 2002.
- A surge in inflation in 2002 was mainly due to a sharp fall in the exchange rate, which had a direct impact on the cost of housing as most rents are denominated in US dollars, and an increase in VAT. Interest rates were raised sharply, with the Bank of Israel's headline interest rate peaking at 9.1% in July 2002. There has subsequently been a dramatic decline in inflation from a peak of 6.9% last October; in July 2003 consumer prices were 1.6% below their year-earlier level. The Bank of Israel has responded to the sharp fall in inflation by cutting its headline interest rate; the latest reduction of 40 bps to 6.10% in September was the eighth this year. The Finance Ministry is pressing for bigger interest rate reductions to bolster GDP growth, but the Bank of Israel remains concerned about the budget deficit. Although the government is committed to reducing the deficit to meet conditions attached to a recent US loan guarantee agreement, there are doubts about how this can be achieved given the poor security situation and weak economic outlook.

## Economic data and debt statistics

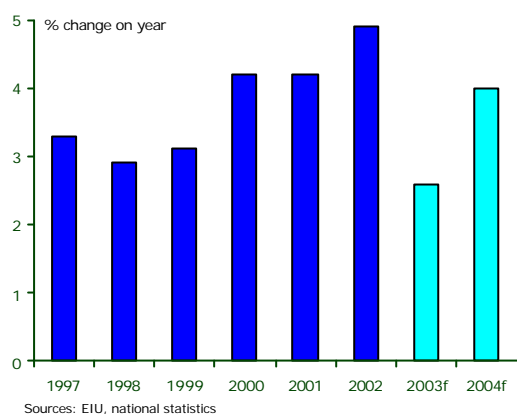
Israel	1997	1998	1999	2000	2001	2002	2003f	2004f
Economic growth (%)	3.3	3.0	2.6	7.4	-0.9	-1.0	0.8	2.5
Inflation (yr av, %)	9.0	5.5	5.2	1.1	1.1	5.7	1.4	1.5
Budget Balance (% of GDP)	-2.7	-2.4	-2.2	-0.6	-4.6	-4.0	-5.3	
Current Account (% of GDP)	-3.4	-1.1	-1.5	-0.6	-1.6	-1.2	0.4	
External Debt (USD bn)	55.1	57.9	61.6	63.4	64.3	66.1	68.9	
External Debt/GDP Ratio (%)	53.6	56.3	59.7	55.7	57.5	64.4	62.9	
External Debt/Exports Ratio (%)	155.8	156.7	146.1	122.4	143.9	152.8	153.5	
Short-term Debt/Reserves (%)	23.5	17.3	20.5	18.7	17.1	18.4		
Debt Service Ratio (Paid) (%)	19.1	18.8	18.4	19.7	16.9	16.7		
Debt Service Ratio (Due) (%)	19.1	18.8	18.4	19.7	16.9	16.7	16.2	
International Reserves (USD bn)	20.3	22.7	22.6	23.3	23.4	24.1	24.6*	
Import Cover (g & s) (months)	6.6	7.6	6.7	6.0	6.5	6.8		

\* June 2003

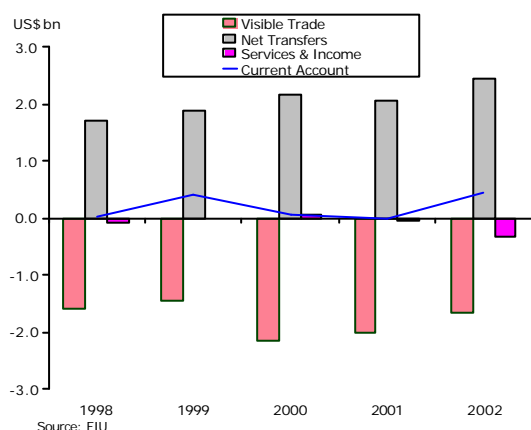
Sources: IMF, Economist Intelligence Unit, ANZ Bank

# Country Update: Jordan

## GDP growth has been hit by the Iraq war in 2003



## The current account strengthened in 2002 partly due to strong export growth



- Real GDP rose by an estimated 4.9% in 2002, a stronger result than had been expected given continuing violence in the Palestinian areas and the mounting prospect of war against Iraq. Agriculture and manufacturing grew by 13.4% and 10.6% respectively in 2002; mining and construction also registered strong gains so growth in the services sectors was presumably much slower.
- The government initially projected real GDP growth of 5% in 2003, but this has been revised to 3% to take account of the war in Iraq. The disruption to bilateral trade with Iraq included the loss of a key source of subsidised oil and there has also been a detrimental impact on tourism. A major objective of economic policy is to raise real GDP growth to 6% per annum over the medium term and the authorities recognise that further fiscal reform is a key element in realising this objective.
- The adverse external environment had a detrimental impact on tax revenues in 2002 and, although the government cut spending, the budget deficit exceeded the limit agreed with the IMF. The government responded to the adverse impact of the Iraq war on revenue in 2003 with a series of fiscal measures in May that demonstrates its commitment to fiscal consolidation. Other planned reforms include privatisation and measures to strengthen the banking system and reduce the pensions burden.
- The US dollar value of exports rose by 20% in 2002, which was well ahead of a 3% rise in imports and secured a 16% reduction in the large visible trade deficit. With net transfers rising by 19% in 2002, there was a significant improvement on the current account with a balanced result in 2001 succeeded by a surplus equivalent to almost 5% of GDP. It is reported that exports continued to rise in the first half of 2003, with stronger exports to the US offsetting a sharp decline in exports to Iraq.

## Economic data and debt statistics

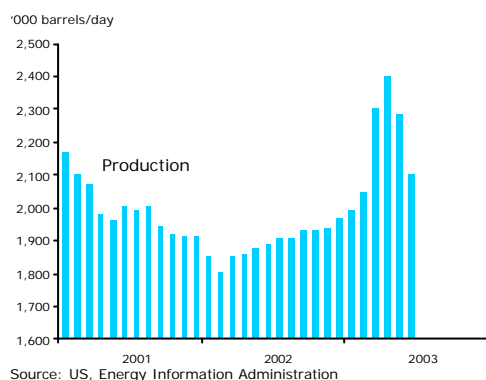
Jordan	1997	1998	1999	2000	2001	2002	2003f	2004f
Economic growth (%)	3.3	2.9	3.1	4.2	4.2	4.9	2.6	4.0
Inflation (yr av, %)	3.0	3.1	0.6	0.7	1.8	1.8	2.5	3.2
Budget Balance (% of GDP)	-7.4	-10.0	-7.3	-7.4	-6.9	-8.0	-9.9	
Current Account (% of GDP)	0.4	0.2	5.0	0.7	0.0	4.8	1.9	
External Debt (USD bn)	7.3	7.6	8.1	7.4	7.5	7.9	8.1	
External Debt/GDP Ratio (%)	101.4	96.3	99.6	87.1	83.1	83.2	81.4	
External Debt/Exports Ratio (%)	134.2	139.1	143.1	121.7	116.2	116.2	116.9	
Short-term Debt/Reserves (%)	33.8	33.9	33.1	21.2	14.6	11.4		
Debt Service Ratio (Paid) (%)	15.8	15.9	9.8	12.2	10.4	10.3		
Debt Service Ratio (Due) (%)	15.9	15.9	10.4	12.6	10.4	10.6	9.2	
International Reserves (USD bn)	2.2	1.8	2.6	3.3	3.1	4.0	4.8*	
Import Cover (g & s) (months)	5.1	4.0	6.3	6.9	6.1	7.7		

\* June 2003

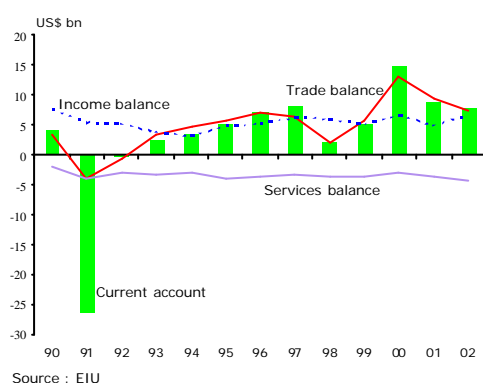
Sources: IMF, Economist Intelligence Unit, national statistics

# Country Update: Kuwait

## Higher crude oil production in first half of 2003



## Current account stays healthy



- The political system is relatively stable with the power of the long-ruling al-Sabah family being well established. However, the Emir's health concerns and Crown Prince Sheikh Saad's poor health have raised uncertainties over succession with no clear candidate among the ruling family as yet.
- Some headway in respect of political reform was made with the official split of the posts of Crown Prince and Prime Minister in July, signalling a move towards greater accountability as Sheikh Saad's standing as Crown Prince meant that he was above questioning by parliament in his position as Prime Minister. Sheikh Sabah, the Emir's brother, who had already assumed much of the day-to-day running of the state given Crown Prince Sheikh Saad's ill health, was appointed Prime Minister. He is likely to embrace economic reform but the government is expected to continue to face opposition from parliament. The challenges faced by the government include reducing pressure on the public sector wage bill by encouraging its citizens to seek employment in the private sector, which is currently dominated by an expatriate workforce, and liberalising foreign investment rules, made more urgent by the large investment potential in Iraq under a new regime. Project Kuwait - a US\$7 bn bid to double output from five northern oil fields in collaboration with a consortium of foreign oil firms has yet to receive parliamentary approval.
- Being heavily dependent on the oil sector, lower production over the past two years adversely affected economic output but a return to growth is projected for 2003.
- Kuwait has chalked up strong fiscal and current account surpluses. Although the government reports a fiscal deficit, accounting adjustments to include items such as income from external assets held by the Kuwait Investment Authority show a much stronger fiscal position. A smaller fiscal surplus, due to current and capital expenditure pressures and possible fall in oil receipts, is expected but Kuwait's fiscal position is likely to remain healthy.

## Economic data and debt statistics

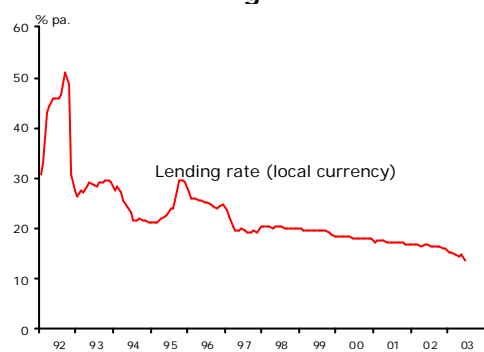
Kuwait	1997	1998	1999	2000	2001	2002e	2003f	2004f
Economic growth (%)	1.2	3.2	-1.6	3.9	-1.0	-2.0	4.2	1.1
Inflation (yr av, %)	0.6	0.2	3.0	1.9	1.6	1.3	1.6	2.1
Public Sector Balance (% of GDP), FY	14.2	-1.4	33.8	37.2	21.7	25.8	18.3	
Current Account Balance (% of GDP)	26.6	8.8	17.3	39.6	25.0	21.7	25.5	
External Debt (USD bn)	9.4	9.5	10.5	9.3	10.5	11.6	11.9	
External Debt/GDP Ratio (%)	31.5	37.8	36.0	25.0	30.7	32.7	30.0	
External Debt/Exports Ratio (%)	39.6	51.2	52.8	32.4	44.9	48.2	43.2	
Short-term Debt/Reserves (%)	157.0	169.7	138.6	80.9	71.1	86.1		
Debt Service Ratio (Paid) (%)	10.2	10.5	4.9	4.4	3.9	3.9		
Debt Service Ratio (Due) (%)	10.2	10.5	4.9	4.4	3.9	3.9	3.4	
International Reserves (USD bn)	3.5	3.9	4.8	7.1	9.9	9.2	8.6*	
Import Cover (g & s) (months)	3.2	3.6	4.9	7.5	9.7	7.9		

\*: June 2003

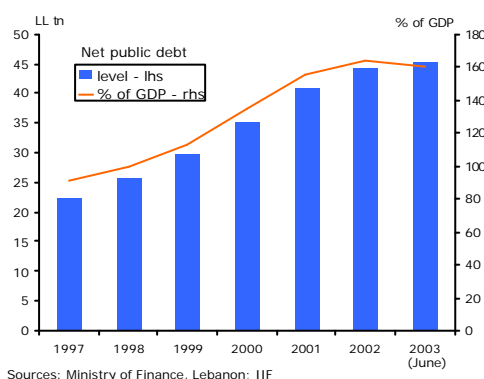
Sources: IMF, Economist Intelligence Unit, ANZ Bank

# Country Update: Lebanon

## Lending rate has fallen but remains high



## Heavy public debt burden



- Political differences between Prime Minister Rafik Hariri and President Emile Lahoud have delayed progress in implementing much-needed development and reconstruction projects. With parliamentary and presidential elections due in late 2004, scope to press ahead with economic reform is likely to be limited. Regional tensions and security concerns on the southern border continue to threaten political and economic stability.
- Real GDP is estimated to have grown by 1.5% in 2002. A modest pick-up is forecast for 2003 supported by renewed confidence after successful capital raisings. The potential for higher growth, however, is limited by high interest rates (lending rate at around 13%) and political infighting.
- There has been some success in reducing the fiscal deficit but it remains high, with interest payments accounting for over 40% of expenditure and close to 80% of total revenue in 2002. The target of reducing the deficit to less than 10% of GDP in 2003 is unrealistic, with the shortfall likely to be around 13% of GDP.
- Foreign reserves have strengthened significantly due largely to the inflow of funds pledged at the Paris II donor conference in November 2002.
- The Paris II loans amounting to US\$4.3 bn, and an agreement with commercial banks in December 2002 to hold government securities worth US\$3.8 bn, will help to improve the maturity and interest rate profile of public debt. Nevertheless, public debt will remain a heavy burden. At end-June 2003, net public debt (local and foreign currency) stood at LL45.3 tn (approx. US\$30 bn or 160% of GDP). Debt service obligations will remain hefty and, with limited progress in pursuing privatisation and other measures to significantly improve its fiscal position, the government will have to secure further funding to meet large financing requirements, making it imperative to maintain investor confidence.

## Economic data and debt statistics

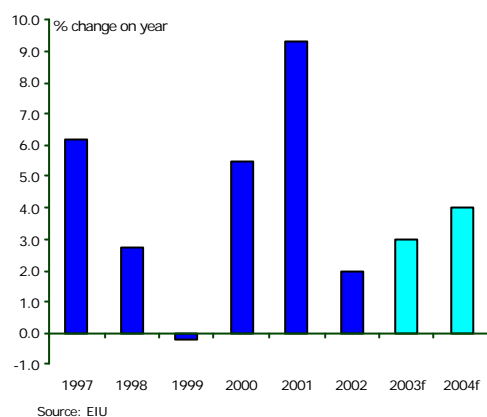
Lebanon	1997	1998	1999	2000	2001	2002e	2003f	2004f
Economic growth (%)	4.0	1.2	-1.6	-0.6	0.8	1.5	2.0	2.5
Inflation (yr av, %)	5.2	3.8	0.5	-1.0	0.5	4.0	2.5	2.0
Public Sector Balance (% of GDP)	-23.6	-13.8	-14.1	-23.7	-17.3	-16.8	-12.9	
Current Account Balance (% of GDP)	-26.8	-22.2	-17.5	-19.0	-24.9	-17.8	-16.7	
External Debt (USD bn)	6.8	8.8	10.3	12.3	15.0	19.6	22.5	
External Debt/GDP Ratio (%)	45.5	52.7	61.0	75.2	93.0	115.9	125.5	
External Debt/Exports Ratio (%)	137.1	179.1	213.7	244.0	275.2	340.9	361.7	
Short-term Debt/Reserves (%)	30.0	29.9	28.3	42.7	53.0	32.4		
Debt Service Ratio (Paid) (%)	17.7	14.4	20.1	33.0	34.6	47.3		
Debt Service Ratio (Due) (%)	17.7	14.4	20.1	33.0	34.6	47.3	51.4	
International Reserves (USD bn)	6.0	6.6	7.8	5.9	5.0	7.2	11.1*	
Import Cover (g & s) (months)	9.6	11.1	15.0	11.5	8.3	20.7		

\*: May 2003

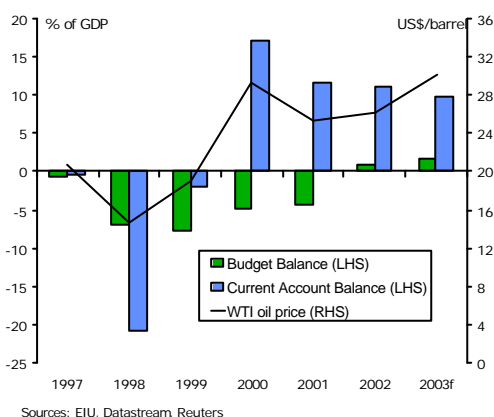
Sources: IMF, Economist Intelligence Unit, ANZ Bank

# Country Update: Oman

## The economic growth spurt has ended



## Fluctuating oil prices mainly responsible for big swings in budget and c/a balances



- There have recently been significant revisions to estimates of real GDP growth. The biggest change is to 2001 with GDP growth now put at 9.3%, well above the previous estimate of 5.9%. The growth surge was short-lived with real GDP rising by just 2.0% in 2002. The sharp slowdown was largely the result of a 6% decline in oil production caused by technical problems. Technical problems in the oil sector are still having a detrimental impact, but the scale of the problem is not clear and GDP projections for 2003 are spread across a broad 0-5% range.
- Oil and gas reserves are being utilised to modernise and diversify the economy and meet the employment aspirations of a young and rapidly-growing population. The natural gas sector has developed rapidly over recent years - exports of LNG rose from 2.3 mn tons in 2000 to 6.5 mn tons in 2002 - but Oman remains heavily dependent on oil which accounts for 70-75% of government revenues and visible exports. Oil reserves in 2002 were estimated to be sufficient for only about 15 years at current production rates. New discoveries and production techniques should boost the life of reserves, but do not diminish the urgent need for economic diversification. Tourism and a free trade zone are other priorities in efforts to diversify the economy. The government is opening the economy to foreign investment and is improving the environment for such investment by unifying corporate tax rates. Educational standards are being raised to boost employment prospects and meet ambitious 'Omanisation' targets for nationals to replace foreign workers in particular sectors.
- Average oil prices in 2003 seem likely to be well above the US\$20/barrel assumed in this year's budget. The favourable impact on government revenue may be partly offset by spending above initial estimates, but there are good prospects that the budget will remain in surplus rather than reverting to deficit as envisaged in the budget.

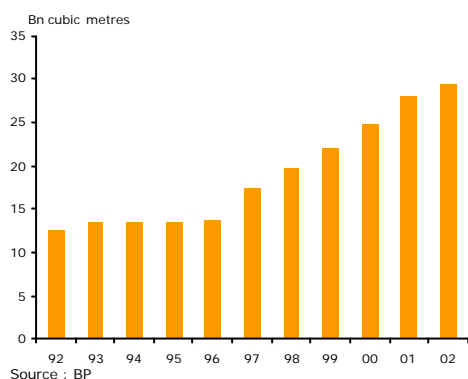
## Economic data and debt statistics

Oman	1997	1998	1999	2000	2001	2002	2003f	2004f
Economic growth (%)	6.2	2.7	-0.2	5.5	9.3	2.0	3.0	4.0
Inflation (yr av, %)	0.1	-0.8	0.4	-1.1	-1.1	-0.7	0.3	0.5
Budget Balance (% of GDP)	-0.7	-6.9	-7.8	-4.8	-4.3	0.9	1.7	
Current Account (% of GDP)	-0.5	-20.9	-1.9	17.2	11.6	11.2	9.7	
External Debt (USD bn)	6.2	6.3	6.8	6.6	6.0	5.9	6.0	
External Debt/GDP Ratio (%)	39.3	44.5	43.5	33.0	30.2	28.9	29.0	
External Debt/Exports Ratio (%)	74.6	100.0	86.9	54.4	51.4	49.2	49.9	
Short-term Debt/Reserves (%)	66.6	131.4	66.3	54.6	53.5	39.7		
Debt Service Ratio (Paid) (%)	11.0	18.4	12.4	7.2	14.2	11.2		
Debt Service Ratio (Due) (%)	11.0	18.4	12.5	7.2	14.3	11.2	10.7	
International Reserves (USD bn)	1.5	1.1	2.8	2.4	2.4	3.2	3.6*	
Import Cover (g & s) (months)	3.0	1.9	5.7	4.6	4.1	5.3		

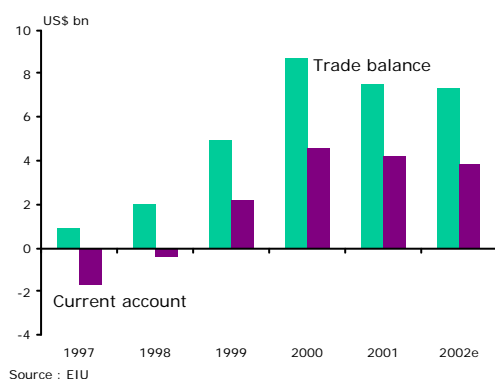
\* June 2003 Sources: IMF, Economist Intelligence Unit

# Country Update: Qatar

## Natural gas production accelerates



## Strong trade surplus offsets invisibles deficit



- Since coming into power in 1995, Sheikh Hamad bin Khalifa al-Thani has introduced several measures aimed at liberalising the country's political system. The first female cabinet minister was appointed in November 2002, a new constitution was approved in a referendum in April and a human rights body has been established. Nevertheless, the emir and the royal family are unlikely to relinquish much control over the state. Qatar's international standing has been lifted by its move towards greater democracy. While stronger ties with the US have stirred up some domestic opposition and strained ties with some of its neighbours, political stability is unlikely to be seriously threatened.
- Qatar's proved oil reserves are small but have risen from 3.7 bn barrels at end-1992 to 15.2 bn barrels at end-2002 according to the BP Statistical Review of World Energy (June 2003), representing 1.5% of world total. Oil production continues to exceed OPEC quotas with August output at 0.73 mn bbl/day against the target of 0.66 mn bbl/day according to the International Energy Agency. Natural gas reserves are the third largest after Russia and Iran. Expansion of LNG capacity continues with more export agreements expected.
- Investment spending and export growth are expected to support further economic expansion with real GDP forecast to expand by 8.5% in 2003. However, the economy is likely to grow at a slower pace in 2004 of around 5%, partly reflecting pressure to adhere to its OPEC oil quota and an easing bias in the outlook for oil prices, which in turn is likely to affect consumption.
- The current account has chalked up strong surpluses since 1999 underpinned by oil export receipts and more recently, LNG export earnings.
- Debt service obligations are expected to remain demanding reflecting borrowing for infrastructure development but the expected acceleration in natural gas exports over the medium to long term should help to ease the burden.

## Economic data and debt statistics

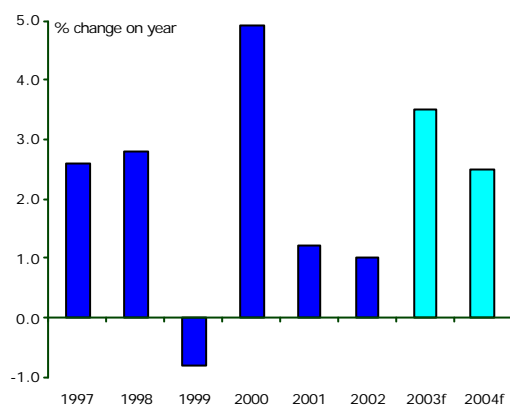
Qatar	1997	1998	1999	2000	2001	2002e	2003f	2004f
Economic growth (%)	25.4	6.2	5.3	11.6	7.2	4.6	8.5	5.0
Inflation (yr av, %)	2.8	2.6	2.1	1.7	1.4	1.0	2.0	1.9
Public Sector Balance (% of GDP)	-7.8	-4.7	-4.6	7.9	3.6	6.5	3.9	
Current Account Balance (% of GDP)	-14.9	-4.4	17.5	25.8	24.9	21.9	27.9	
External Debt (USD bn)	9.3	10.1	11.7	14.5	15.2	15.4	16.2	
External Debt/GDP Ratio (%)	82.5	98.7	94.3	81.6	88.6	88.0	84.1	
External Debt/Exports Ratio (%)	203.5	175.2	145.9	116.7	128.7	131.3	118.3	
Short-term Debt/Reserves (%)	225.3	239.7	230.1	190.0	167.6	140.4		
Debt Service Ratio (Paid) (%)	21.1	23.0	17.7	15.0	19.1	21.5		
Debt Service Ratio (Due) (%)	21.1	23.0	17.7	15.0	19.1	21.5	18.5	
International Reserves (USD bn)	0.8	1.0	1.3	1.2	1.3	1.6	3.0*	
Import Cover (g & s) (months)	3.3	4.1	6.9	4.7	4.7	5.2		

\*: June 2003

Sources: IMF, Economist Intelligence Unit, ANZ Bank

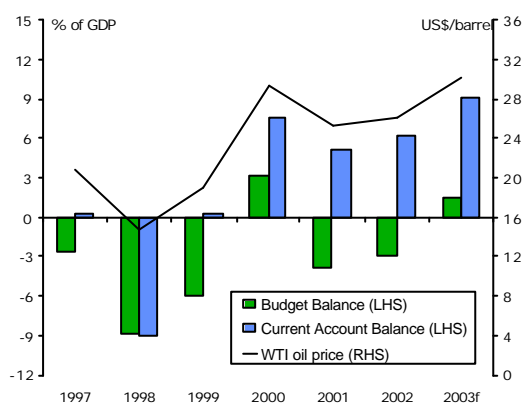
# Country Update: Saudi Arabia

## Real GDP growth is expected to be around 3-4% in 2003



Source: EIU, ANZ Bank

## Fluctuating oil prices mainly responsible for big swings in budget and c/a balances



Sources: EIU, Datastream

- The bilateral relationship with the US is under severe strain because of Saudi nationals' involvement in the 9/11 attack and allegations that Saudi Arabian groups have provided funding for terrorist organisations. There has been a security crackdown in the wake of the terrorist attack in May 2003. Domestically, there has been more open discussion over recent months about the challenges confronting Saudi Arabia.
- Higher oil production and prices are expected to be reflected in real GDP growth of around 3.5% in 2003. The fiscal balance is expected to return to surplus this year and the current account surplus to rise to around 9% of GDP.
- The economic reform process has gained momentum over recent months. Stock market reform, intellectual property protection, the partial privatisation of Saudi Telecom in January 2003, and plans to open the aviation sector to competition are positive developments. Disappointingly, the original and integrated Gas Initiative to open the gas sector to foreign investment failed in June 2003. However, there has been some progress in this area with an agreement between Saudi Aramco, Shell and Total in July to form a joint venture to explore for, and produce, natural gas in the south of the country.
- Saudi Arabia and the EU signed a trade agreement in August 2003. This agreement, and Washington's intention to ensure that the WTO does not force countries to open their markets to goods prohibited on religious grounds, remove obstacles to WTO membership, but Saudi Arabia's objective of securing membership by end-2003 will be difficult to meet.
- The fixed exchange rate is underpinned by the strong balance of payments and low inflation and is not expected to be threatened in the foreseeable future.

## Economic data and debt statistics

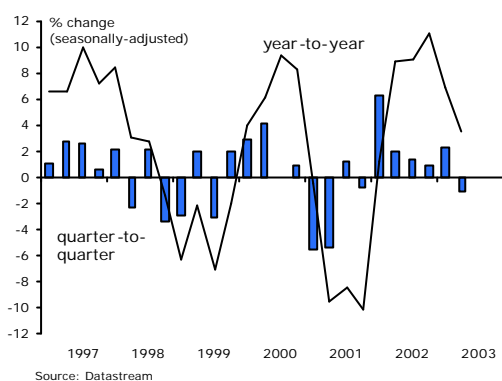
Saudi Arabia	1997	1998	1999	2000	2001	2002	2003f	2004f
Economic growth (%)	2.6	2.8	-0.8	4.9	1.2	1.0	3.5	2.5
Inflation (yr av, %)	0.1	-0.4	-1.6	-0.8	-0.4	-0.5	0.7	1.2
Budget Balance (% of GDP)	-2.6	-8.9	-6.0	3.2	-3.9	-2.9	1.4	
Current Account (% of GDP)	0.2	-9.0	0.3	7.6	5.1	6.2	9.1	
External Debt (USD bn)	22.6	29.9	40.9	36.1	36.2	38.1	39.0	
External Debt/GDP Ratio (%)	13.7	20.5	25.4	19.2	19.7	20.2	19.6	
External Debt/Exports Ratio (%)	32.0	60.5	66.0	42.2	46.8	47.3	44.4	
Short-term Debt/Reserves (%)	91.2	103.4	115.6	88.7	106.6	93.5		
Debt Service Ratio (Paid) (%)	3.1	5.1	5.0	3.8	4.2	3.6		
International Reserves (USD bn)	14.9	14.2	17.0	19.6	17.6	20.6	21.3*	
Import Cover (g & s) (months)	3.4	3.8	4.6	4.4	4.4	5.0		

\* June 2003

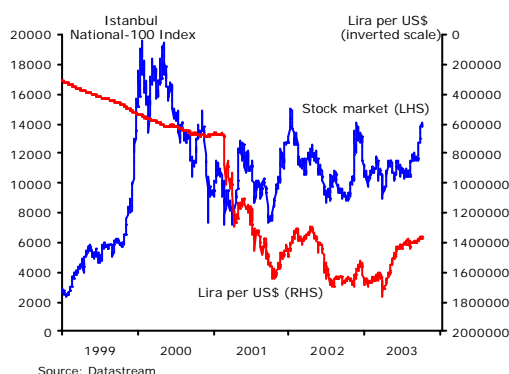
Sources: IMF, Economist Intelligence Unit, ANZ Bank

# Country Update: Turkey

## Real GDP growth remains volatile



## The stock market and exchange rate are sensitive to economic developments



- The government announced far-reaching political reforms in July 2003 to reduce the role of the military in government. If these, and other reforms, are implemented, and the current impasse concerning the Cyprus issue is broken, then there are reasonable prospects that Turkey will be able to begin negotiations with the EU in 2005 about eventual membership.
- Real GDP rose by 3.6% in the year to June 2003, down sharply from 7.0% in March. The June result was below expectations, but the government is confident that full-year growth will be close to the official projection of 5% despite the adverse impact of the Iraq war. A bigger current account deficit is expected in 2003, but Turkey's flexible exchange rate policy should prevent the deficit becoming a significant constraint on economic policy.
- Turkey is meeting the main conditions attached to the IMF stand-by arrangement of February 2002. The IMF approved another disbursement in August and agreed to extend the repayment schedule by one year. The core of the programme is the commitment to a primary fiscal surplus equivalent to 6.5% of GNP in both 2003 and 2004, but there are doubts about whether Turkey will meet this target in 2003. Annual inflation had fallen to 24.9% in August and is expected to meet the end-2003 target of 20%. The Central Bank has responded to the decline in inflation by cutting official interest rates; a reduction of 300bp in September took the range for short-term interest rates to 29-35%.
- Despite the latest endorsement of the IMF, the risks of another financial crisis are quite high. A major risk is of higher government spending ahead of municipal elections in 2004.

## Economic data and debt statistics

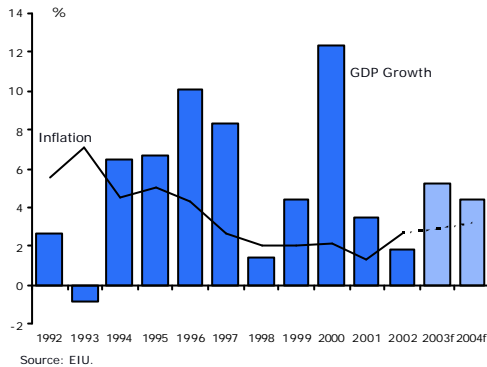
Turkey	1997	1998	1999	2000	2001	2002	2003f	2004f
Economic growth (%)	7.5	3.1	-4.7	7.4	-7.5	7.8	4.6	4.5
Inflation (yr av, %)	85.7	84.6	64.9	54.9	54.4	45.0	26.0	18.0
Budget Balance (% of GDP)	-8.5	-8.4	-13.0	-11.4	-19.6	-14.2	-13.6	
Current Account (% of GDP)	-1.4	1.0	-0.7	-4.9	2.3	-1.0	-2.9	
External Debt (USD bn)	84.8	97.1	102.2	118.3	115.1	131.6	142.0	
External Debt/GDP Ratio (%)	44.7	48.5	55.3	59.4	79.1	71.8	60.1	
External Debt/Exports Ratio (%)	145.9	155.7	194.4	202.0	205.7	225.4	207.2	
Short-term Debt/Reserves (%)	96.4	108.9	100.5	128.6	86.6	56.0		
Debt Service Ratio (Paid) (%)	20.1	23.9	35.4	35.4	40.0	37.5		
Debt Service Ratio (Due) (%)	20.1	23.9	35.4	35.4	40.0	37.5	27.4	
International Reserves (USD bn)	18.7	19.5	23.3	22.5	18.9	27.1	28.9*	
Import Cover (g & s) (months)	4.0	4.2	5.8	4.3	4.9	5.9		

\* June 2003

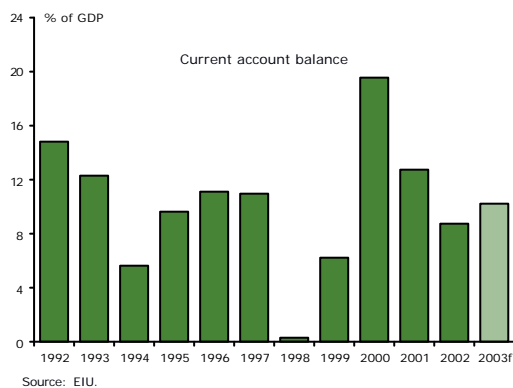
Sources: IMF, IIF, Economist Intelligence Unit, ANZ Bank

# Country Update: United Arab Emirates

## Growth to slow a little, but sustained by project spending



## Current account surplus to shrink as oil income comes under pressure



- Economic policy in the UAE is committed to trade and openness, and the economy is well-diversified. According to the World Bank, the non-oil sectors grew by more than 9%pa through the nineties, and by 2000 accounted for 70% of GDP and 43% of exports. Dubai in particular is strong in commerce, telecommunications, tourism and financial services, and is promoting a new flagship development, the Dubai International Financial Centre, to complement a number of existing and proposed sector-specific free zones such as Internet City and Media City.
- Oil production has been running significantly above the OPEC quota this year. Iraqi supplies have not recovered as anticipated since major hostilities ended, and in June OPEC authorised quota increases to cover the shortfall. This is reflected in expected growth of around 5% this year and a current account surplus in excess of 10% of GDP.
- Next year, however, should see lower oil prices as Iraqi production recovers, and OPEC will need to impose cuts on other members. Consequently, the current account surplus is likely to shrink. Growth, however, should be sustained around 5% because of the momentum of spending on infrastructure, large petrochemical projects and facilities for the services and tourism sectors.
- In the diplomatic arena, the UAE continues to build relations with the West as well as in the Arab region. It supports the US-sponsored "road map to peace" in the Israeli-Palestinian conflict, funds health and housing projects in the West Bank and Gaza, and sponsors relief work in Iraq.

## Economic data and debt statistics

UAE	1997	1998	1999	2000	2001	2002	2003f	2004f
Economic growth (%)	8.3	1.4	4.4	12.3	3.5	1.8	5.2	4.4
Inflation (yr av, %)	2.0	2.0	2.1	1.3	2.7	2.9	3.2	2.5
Budget Balance (% of GDP)	-4.0	-16.9	-15.1	-3.8	-7.0	-13.2	-11.0	
Current Account (% of GDP)	11.0	0.3	6.3	19.6	12.8	8.7	10.8	
External Debt (US\$ bn)	12.3	18.2	18.9	18.6	18.5	20.1	21.4	
Ext Debt/GDP Ratio (%)	25.0	39.1	34.4	26.5	26.7	28.3	28.0	
Ext Debt/Exports Ratio (%)	29.4	50.8	49.1	35.8	37.8	41.4	40.3	
Short term debt/Reserves (%)	115	164	134	95	80	77		
Debt Service Ratio (Paid) (%)	2.8	5.2	4.2	3.5	2.9	2.3		
Debt Service Ratio (Due) (%)	2.8	5.2	4.2	3.5	2.9	2.3	1.9	
Foreign Exchange Reserves (US\$ bn)	8.4	9.1	10.7	13.5	14.1	15.1	14.3*	
Import Cover (months)	3.3	3.8	4.5	5.2	5.2	5.4		

\*: April 2003

Sources: IMF, Economist Intelligence Unit, ANZ Bank

ANZ is represented in:

**AUSTRALIA by:**

Australia and New Zealand Banking Group Limited  
ABN 11 005 357 522  
10th Floor 100 Queen Street, Melbourne 3000, Australia  
Telephone +61 3 9273 6224  
Fax +61 3 9273 5711

**UNITED KINGDOM by:**

Australia and New Zealand Banking Group Limited  
ACN 005 357 522  
Minerva House, PO Box 7, Montague Close, London, SE1  
9DH, United Kingdom  
Telephone+ 44 207 378 2121  
Fax+44 207 378 2378

**UNITED STATES OF AMERICA by:**

ANZ Securities, Inc.  
(Member of NASD and SIPC)  
6th Floor 1177 Avenue of the Americas  
New York, NY 10036, United States of America  
Tel: +1 212-801-9160  
Fax: +1 212-801-9163

**NEW ZEALAND by:**

ANZ Banking Group (New Zealand) Limited.  
Level 10 215-229 Lambton Quay Wellington, New  
Zealand  
Telephone +64 4 496 7000,  
Fax +64 4 496 7360

In Australia, ANZ Investment Bank is a business name of Australia and New Zealand Banking Group Limited, ACN 005 357 522 ('ANZ Bank'), which is a licensed securities dealer. In New Zealand, ANZ Investment Bank is a business name of ANZ Banking Group (New Zealand) Limited WN / 035976 ('ANZ NZ').

This report is being distributed in the United States by ANZ Securities, Inc. ('ANZ S') (an affiliated company of ANZ Bank), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZ S upon request. Any US person (s) receiving this report and wishing to effect transactions in any securities referred to herein should contact ANZ S, not its affiliates.

This report is being distributed in the United Kingdom by Australia and New Zealand Banking Group Limited, ('ANZ Bank, UK') for the information of its market counterparty and intermediate customers only. It is not intended for and must not be distributed to private clients. In the UK, ANZ Bank is regulated by, and is a member of, the Financial Services Authority ('FSA'). Nothing here excludes or restricts any duty or liability to a customer which ANZ Bank, UK may have under The

Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the FSA.

This research publication of ANZ Bank is issued on the basis that it is only for the information of the particular person to whom it is provided. This report may not be reproduced, distributed or published by any recipient for any purpose. Any recommendations relating to securities contained herein are based on a consideration of the securities alone, and as such are conditional and must not be relied upon without specific advice from your securities advisor as to the appropriateness to you given your individual investment objectives, financial situation and particular needs. Under no circumstances is this report to be used or considered as an offer to sell, or a solicitation of an offer to buy.

In addition, from time to time ANZ Bank, ANZ NZ, ANZ S, its affiliated companies, or their associates and employees may have an interest in any securities directly or indirectly the subject of this report (and may receive commissions or other remuneration in relation to the sale of such securities), or may perform services for, or solicit business from, any company the subject of this report. If you have been referred to ANZ Bank, ANZ NZ, ANZ S or its affiliated company by any person, that person may receive a benefit in respect of any transactions effected on your behalf, details of which will be available upon request.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this report accurately reflect the author's personal views about any and all of the securities and issuers referred to herein. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this report and are subject to change without notice. No part of the author's compensation was, is or will be directly or indirectly related to specific recommendations or views expressed about any securities or issuers in this report. ANZ Bank, ANZ NZ, ANZ S, its affiliated companies, their directors, officers, and employees disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ('Liability') arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

Where the recipient of this publication conducts a business, the provisions of the Consumer Guarantees Act 1993 (NZ) shall not apply.

For further information, please email [Economics@anz.com](mailto:Economics@anz.com)