

ANZ COUNTRY RISK REPORT

CONTENTS

Oil & Gas in the Middle East	2
Middle East: Country Risk Issues	4
Middle East: Regional Economic Developments	13
Australia's Trade with the Middle East	16

About this report

The main report is divided into several sections. It begins with a series of charts and brief commentary that examine the important oil and gas sector. The main section of the report draws on detailed country risk work undertaken by Economics@ANZ. A series of charts examine economic developments on a regional basis and the report concludes by focusing on Australia's trade with the Middle East.

The separate Country Updates document provides a brief update of recent developments and the economic outlook in individual Middle Eastern countries, with a table of economic statistics for each one.

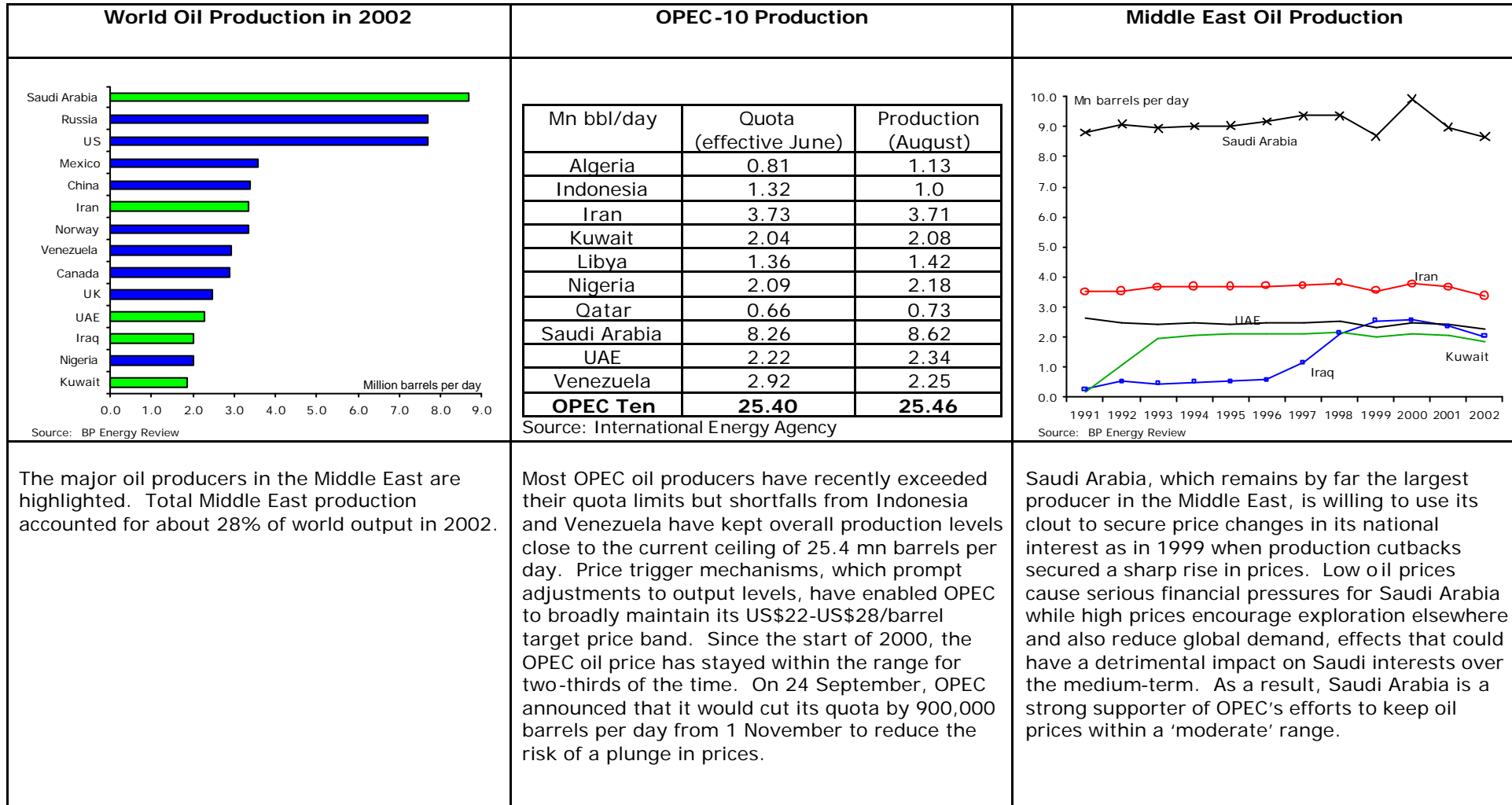
[Economics@ANZ](#)

29 September 2003

OIL AND GAS IN THE MIDDLE EAST

Proved Oil Reserves (end-2002)	Oil Prices	Proved Natural Gas Reserves (end-2002)																																																		
<table border="1" style="margin-top: 10px; width: 100%; border-collapse: collapse;"> <caption>Proved Oil Reserves (end-2002) - % of world total</caption> <thead> <tr> <th>Country</th> <th>% of world total</th> </tr> </thead> <tbody> <tr><td>Saudi Arabia</td><td>25.0</td></tr> <tr><td>Iraq</td><td>10.5</td></tr> <tr><td>UAE</td><td>9.5</td></tr> <tr><td>Kuwait</td><td>9.0</td></tr> <tr><td>Iran</td><td>8.5</td></tr> <tr><td>Venezuela</td><td>7.5</td></tr> <tr><td>Other ME & N Africa</td><td>6.5</td></tr> <tr><td>Russia</td><td>5.5</td></tr> <tr><td>US</td><td>3.5</td></tr> </tbody> </table> <p style="font-size: small;">Source: BP Energy Review</p>	Country	% of world total	Saudi Arabia	25.0	Iraq	10.5	UAE	9.5	Kuwait	9.0	Iran	8.5	Venezuela	7.5	Other ME & N Africa	6.5	Russia	5.5	US	3.5	<table border="1" style="margin-top: 10px; width: 100%; border-collapse: collapse;"> <caption>Oil Prices (US\$ per barrel West Texas Intermediate)</caption> <thead> <tr> <th>Year</th> <th>Price (US\$)</th> </tr> </thead> <tbody> <tr><td>1998</td><td>15.0</td></tr> <tr><td>1999</td><td>18.0</td></tr> <tr><td>2000</td><td>30.0</td></tr> <tr><td>2001</td><td>25.0</td></tr> <tr><td>2002</td><td>20.0</td></tr> <tr><td>2003</td><td>28.0</td></tr> </tbody> </table> <p style="font-size: small;">Source: Datastream</p>	Year	Price (US\$)	1998	15.0	1999	18.0	2000	30.0	2001	25.0	2002	20.0	2003	28.0	<table border="1" style="margin-top: 10px; width: 100%; border-collapse: collapse;"> <caption>Proved Natural Gas Reserves (end-2002) - % of world total</caption> <thead> <tr> <th>Country</th> <th>% of world total</th> </tr> </thead> <tbody> <tr><td>Russia</td><td>31.0</td></tr> <tr><td>Iran</td><td>15.0</td></tr> <tr><td>Qatar</td><td>9.0</td></tr> <tr><td>Other ME & N Africa</td><td>8.5</td></tr> <tr><td>Saudi Arabia</td><td>4.5</td></tr> <tr><td>UAE</td><td>4.0</td></tr> <tr><td>US</td><td>3.5</td></tr> </tbody> </table> <p style="font-size: small;">Source: BP Energy Review</p>	Country	% of world total	Russia	31.0	Iran	15.0	Qatar	9.0	Other ME & N Africa	8.5	Saudi Arabia	4.5	UAE	4.0	US	3.5
Country	% of world total																																																			
Saudi Arabia	25.0																																																			
Iraq	10.5																																																			
UAE	9.5																																																			
Kuwait	9.0																																																			
Iran	8.5																																																			
Venezuela	7.5																																																			
Other ME & N Africa	6.5																																																			
Russia	5.5																																																			
US	3.5																																																			
Year	Price (US\$)																																																			
1998	15.0																																																			
1999	18.0																																																			
2000	30.0																																																			
2001	25.0																																																			
2002	20.0																																																			
2003	28.0																																																			
Country	% of world total																																																			
Russia	31.0																																																			
Iran	15.0																																																			
Qatar	9.0																																																			
Other ME & N Africa	8.5																																																			
Saudi Arabia	4.5																																																			
UAE	4.0																																																			
US	3.5																																																			
<p>Overall, proved oil reserves have been relatively steady over the past decade, with Saudi Arabia dominating global reserves, accounting for 25% of the total at end-2002. Although their proved oil reserves are small, Qatar and Oman have reported significant increases over the decade. In the case of Qatar, its reserves have risen sharply from 3.7 bn barrels at end-1992 to 15.2 bn barrels at end-2002, representing 1.5% of world total. Oman's proved oil reserves have increased more modestly from 4.5 bn barrels to 5.5 bn barrels over the same period.</p>	<p>The WTI oil price declined from over US\$31/barrel in late August 2003 to around US\$27 in mid-September before jumping to US\$28.15 on 24 September on the surprise news that OPEC would cut its production quotas by 3.5% in November. Oil prices are approximately 21% below their level in the month immediately before the US-led attack on Iraq. However, the decline is less than many analysts had expected in the aftermath of the overthrow of Saddam Hussein's regime. Iraqi production has not been brought back on stream as quickly as many analysts had projected. According to the oil futures market, the WTI price is expected to remain around US\$28/barrel to end-2003 but decline to US\$25.60 by end-2004. The pace of global economic recovery, as well as supply trends, will be a major influence over coming months.</p>	<p>Proved gas reserves in the Middle East collectively accounted for 36% of world total at end-2002, marginally higher than the leading country, Russia, which has reserves of around 31% of the global total. Qatar, with the third largest reserves, is aggressively expanding its LNG production capacity in an effort to reduce its dependence on crude oil.</p>																																																		

OIL AND GAS IN THE MIDDLE EAST (continued)



MIDDLE EAST: COUNTRY RISK ISSUES

Country	Politics	Economy	Balance of Payments	Other
Bahrain	<p>Good strategic international relationships. Bahrain enjoys firm political and financial support from Saudi Arabia, Kuwait and the UAE. Because of its strategic location, it is regarded as a valuable ally of the West. The US Navy's Fifth Fleet is based in Bahrain.</p> <p>Popular demands for political liberalisation. There were violent protests in the mid-nineties. More recently, the King has begun a programme of liberalisation, with elections for local councils held in May 2002 and for a new Legislative Assembly in October 2002 (the first since the 1975 abolition of the elected parliament). However, there are forces in government which oppose political liberalisation, and reform is consequently likely to be cautious, and may fail to satisfy the aspirations of the populace.</p> <p>Anti-western sentiment in the region could have repercussions for Bahrain, given its good relations with the UK and the US.</p>	<p>Poverty and unemployment among the Shia majority. Unlike its fellow members of the Gulf Co-operation Council (GCC), Bahrain is not rich enough to provide high living standards for all its citizens.</p> <p>Possible loss of economic momentum - some large new projects are nearing completion this year, although the government aims to sustain growth through continued investment spending.</p> <p>Competitive pressures for Bahrain's main businesses. Bahrain's service economy faces competition from Dubai, in particular. Its main industries, petroleum refining and aluminium smelting, are subject to global supply/demand factors, which can impact on margins.</p> <p>Widening budget deficit. The government placed its first sovereign bond (US\$500 mn) in January 2003. There are concerns that continued budget deficits will lead to uncomfortable external debt levels. The public investment programme will nevertheless continue to be a growth driver.</p>	<p>Widening current account deficit. Despite a relatively diversified economy, some 60% of export earnings are derived from oil and refined products. Lower oil prices next year are expected to have an impact.</p> <p>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 receive a boost from this FTA.</p>	

MIDDLE EAST: COUNTRY RISK ISSUES (continued)

	Politics	Economy	Balance of Payments	Other
Egypt	<p>Strong political ties with and financial support from the US, and, to a lesser extent, the EU. However, there is popular opposition to President Mubarak's support for the US and his role as a mediator in the Israeli-Palestinian conflict.</p> <p>Existence of radical Islamist movements such as Jihad (thought to be connected to al Qaeda) and Gamaa Islamiya. Both have been involved in attacks against US interests abroad, foreign tourists in Egypt and domestic targets. Both are committed to the overthrow of the secular government, although there have been few incidents since 1999.</p> <p>Corruption in politics, bureaucracy and business.</p> <p>Authoritarian presidential system, apparently without a succession mechanism.</p> <p>Party structure includes a dominant governing party, weak opposition parties and well-supported unofficial or illegal Islamic political organisations.</p>	<p>Unemployment, officially at 11%, but estimated to be around 30%. Job creation does not match the growth in the labour force, exacerbating the potential for social instability.</p> <p>Ongoing economic reform, aimed at lifting growth to create jobs and improve living standards. However, it is doubtful that a sufficiently high rate of growth of around 8% is achievable.</p> <p>Widening budget deficit. The budget for 2003/04, ratified in June, envisages a deficit of 7% of GDP.</p> <p>Inflation pressures, consequent on the floating of the pound on 29 January 2003. Over the following six months, the pound depreciated 25% against the US dollar.</p>	<p>Significant gas reserves offer the prospect of a medium term boost to export earnings.</p> <p>Vulnerability of tourism revenues to political developments. By late 2002, tourism was recovering from the post-September 11 slump, then collapsed again because of the war in Iraq. Figures for July and August 2003 show a strong rebound.</p> <p>Despite the float of the pound, foreign firms still report delays in availability of foreign currency, and the black market continues.</p> <p>A relationship with the IMF has been re-established. A US\$500 mn Compensatory Financing Facility has been negotiated, but not drawn.</p>	
Iran	<p>The power struggle between the hardline conservatives and reformists continues to hamper the pace of reform. President Khatami's popularity has weakened amidst growing disillusionment, mainly among the younger voters, over the ability to deliver on reforms.</p>	<p>Iran's heavy dependence on oil revenue makes the economy vulnerable to oil price fluctuations although the Oil Stabilisation Fund set up in March 2000, should help as a buffer.</p>	<p>Vulnerable to oil price fluctuations.</p>	

MIDDLE EAST: COUNTRY RISK ISSUES (continued)

	Politics	Economy	Balance of Payments	Other
	<p>Iran's nuclear programme has severely undermined relations with several countries; ties with the US have deteriorated significantly. Tehran is resisting strong pressure from Washington to abandon its nuclear plans. The nuclear issue has also had an adverse impact on relations with the EU and is likely to delay progress on a trade and cooperation agreement.</p>	<p>Reform is underway but its pace is hindered by domestic political tensions. In addition, external political pressures are impeding foreign investment. 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 in the past, current concerns over Iran's nuclear programme and a deterioration in bilateral ties with the US have prompted the US to step-up pressures to discourage investment negotiations.</p>	<p>Iran's external debt position and debt service capabilities have improved significantly over the years. However, not too long ago (1999), the bunching of foreign debt service payments and lower export earnings forced Iran to seek rescheduling arrangements with its creditors and new financing.</p>	
Israel	<p>The prospects of a political settlement with the Palestinians are considered remote in the foreseeable future despite publication of the long-awaited 'road-map' for peace in April 2003. The three-stage plan, which has broad international backing, calls for a series of confidence-building steps, leading to a viable, independent and democratic Palestinian state by 2005, and the normalisation of relations between Israel and the Arab states.</p> <p>A 3-month ceasefire that began at end-June 2003 came to a premature end following a suicide bomb attack in Jerusalem in mid-August. Palestinian Prime Minister Mahmoud Abbas, who did not have the political strength to secure an end to the violence perpetuated by hardline Palestinian groups and who was unable to gain the full support of Mr Yasser Arafat, resigned in September.</p>	<p>Continuing violence is having a severe detrimental impact on economic prospects. Real GDP fell in both 2000 and 2001 and is unlikely to expand by much more than 1% this year.</p> <p>The pronounced deterioration in economic conditions since 2000 has complicated economic management. There have been disagreements between the Finance Ministry and the Bank of Israel regarding economic policy. The government has been critical of monetary policy and considers that interest rates have been kept too high for too long exacerbating the economic slowdown. The Bank of Israel is concerned that the government has not done enough to tackle the budget deficit.</p>	<p>The poor security situation in Israel and the Middle East region, and weak international demand for high-tech products, are mainly responsible for a sharp fall in investment. According to the Institute of International Finance, net equity investment inflows, which averaged US\$4.8 bn per annum in 1999-2000, fell to US\$2.9bn in 2001 and US\$1.6 bn in 2002. A further small decline is expected in 2003.</p> <p>The shekel became fully convertible on 1 January 2003 when all foreign exchange restrictions were removed.</p>	

MIDDLE EAST: COUNTRY RISK ISSUES (continued)

	Politics	Economy	Balance of Payments	Other
	<p>His successor is Mr Ahmed Qurei, another political moderate who is respected internationally. Like Mahmoud Abbas, however, he lacks grassroots Palestinian support that would allow him to gain control of the security forces from Yasser Arafat and confront the hardline extremist groups.</p> <p>The Israeli government remains unwilling to make the concessions that could bolster prospects for peace. In addition to the serious damage being inflicted on peace prospects by the continuing violence, there are also doubts about whether the Bush administration will apply sufficient political pressure on Israel to adopt a more flexible stance in negotiations with the Palestinians.</p>	<p>A durable peace settlement would provide a major boost to the economy in terms of investment and economic growth and open the way for regional economic co-operation, which could have significant benefits for trade and tourism. Defence spending accounts for about 20% of total government spending so a peace settlement would also provide a boost to public finances by allowing military spending to be cut.</p>		
Jordan	<p>King Abdullah is a voice of moderation in Middle East politics. Jordan has good relations with the US and the West and supports efforts to secure a durable Middle East peace settlement.</p> <p>While King Abdullah acknowledges the need for political reform and greater democracy in the Middle East, the pace of political change in Jordan remains slow and cautious. A modest move towards greater democracy took place in June 2003 when parliamentary elections were held. King Abdullah had dissolved parliament in 2001 and had been delaying new polls on the grounds that external political events would produce distorted results. While there has been some criticism that the law governing the election was designed to boost the position of tribal figures and independents loyal to the King, there has also been recognition that the elections were a step in the right direction.</p>	<p>Jordan has a weak economic structure, limited natural resources (mainly phosphate and potash, and good tourism potential), and is vulnerable to regional political instability and upheavals.</p> <p>King Abdullah is in favour of faster economic reform and has appointed pro-business technocrats to key economic portfolios. Economic reform is vital to provide a means of tackling widespread poverty and high unemployment, which could trigger serious social unrest.</p> <p>The government responded to the adverse impact of the Iraq war on tax revenues 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.</p>	<p>A heavy burden of external debt has been eased by reschedulings and write-offs; the Paris Club agreed to a comprehensive rescheduling in July 2002.</p> <p>In July 2003, the IMF approved disbursement of a tranche of the two-year stand-by arrangement agreed in July 2002. However, the authorities do not intend to draw on this financing because of the current strength of the external position.</p>	

MIDDLE EAST: COUNTRY RISK ISSUES (continued)

	Politics	Economy	Balance of Payments	Other
Kuwait	<p>The political system is relatively stable with the power of the long-ruling al-Sabah family being well established. However, the question of succession has arisen with the Crown Prince in poor health and no clear candidate as yet.</p> <p>Some headway has been made in political reform with the official split of the post of Crown Prince and Prime Minister. This places greater accountability on the Prime Minister. The government is expected to pursue economic reform but will continue to face opposition from parliament.</p> <p>There is criticism in the region of Kuwait's support for the US. However, the end of the Saddam era in Iraq and the appointment of Sheikh Sabah as Prime Minister, who is likely to step up efforts to normalise relations with those who did not clearly oppose the 1990 invasion by Iraq (eg. Jordan, Yemen and the Palestinian Authority), should help to improve Kuwait's ties within the region.</p>	<p>The heavy dependence on oil revenue will continue to make the economy vulnerable to oil price fluctuations. However, the accumulation of reserve funds should help as a buffer. The government's foreign and domestic assets are held in two extra -budget accounts; the Reserve Fund for Future Generations, where 10% of government revenue is placed each year, and the General Reserve Fund. Both funds are administered by the Kuwait Investment Authority.</p> <p>A key challenge for the government is to reduce the public sector wage bill. More than 90% of Kuwaiti workers are employed in the public sector while the private sector is dominated by an expatriate workforce.</p>	<p>Kuwait has a healthy external payments position with low debt service obligations.</p>	
Lebanon	<p>Political in-fighting has 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.</p> <p>Regional tensions and the fragile security situation along the Israeli/Lebanese border continue to threaten political and economic stability.</p>	<p>Large fiscal deficit. 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.</p>	<p>Current account deficits have been reduced but remain substantial at around 17.8% of GDP in 2002.</p> <p>Public debt remains a heavy burden, exacerbating concerns over the ability to meet debt service obligations. The debt service ratio was estimated at 47.3% in 2002.</p>	Data reliability.

MIDDLE EAST: COUNTRY RISK ISSUES (continued)

	Politics	Economy	Balance of Payments	Other
Lebanon			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.	
Oman	Sultan Qaboos has no sons and refuses to announce a crown prince. The absence of a clear successor carries some risks.	Unemployment among the young and rapidly-growing population threatens to become a serious problem and adds to the urgency of modernising and diversifying the economy. Technical problems are adversely affecting oil production and economic activity. The severity of the problem is not clear but is likely to persist as the life of reserves diminishes unless there is significant investment in enhanced recovery techniques.	The balance of payments remains vulnerable to fluctuations in international oil prices. Oman's attractions to foreign investors were bolstered when it joined the WTO in 2000. The operating environment for foreign companies is being improved by tax reforms in September 2003 that will unify corporate tax rates at 12%.	Poor quality of economic statistics.
Qatar	Qatar's international standing has been lifted by its move towards greater democracy. Ties with the US have strengthened but this has stirred up some domestic opposition and strained relations with some of its neighbours. Nevertheless, political stability is unlikely to be seriously threatened.	Heavy dependence on oil and gas earnings makes Qatar vulnerable to oil price fluctuations. This is depicted in the wide swings in the fiscal account.	The debt service burden will be demanding over the next few years at around 20%, but extensive investment in LNG production should pay off as more long-term export agreements are secured.	Lack of transparency in economic statistics.

MIDDLE EAST: COUNTRY RISK ISSUES (continued)

	Politics	Economy	Balance of Payments	Other
Saudi Arabia	<p>Pressures for greater democracy and accountability are increasing with the relationship between the ruling royal family, the clerical establishment and public opinion under strain. The young, rapidly-growing population has high employment aspirations and high unemployment could trigger social and/or political unrest. There has been much more open discussion within Saudi Arabia over recent months about the challenges it faces.</p> <p>The long-standing 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.</p>	<p>The economic reform process is cautious despite official recognition that foreign investment and a bigger role for the private sector are necessary to diversify the economy, reduce dependence on oil, and meet high employment aspirations. The reform process has, however, developed momentum over recent months.</p> <p>Saudi Arabia has experienced a protracted period of deflation since the beginning of 1999, with only brief periods since then when consumer prices have been above year-earlier levels. In the year to May 2003, consumer prices were 1.0% below their year-earlier level.</p> <p>The fixed exchange rate and an open capital account preclude an independent monetary policy. Deposit interest rates have fallen sharply from 6.7% at end-2000 to 1.4% in June 2003.</p>	<p>The balance of payments remains vulnerable to fluctuations in international oil prices.</p> <p>The failure of the original and integrated Gas Initiative to open the gas sector to foreign investment in June 2003 was a disappointment. 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.</p> <p>Some obstacles to WTO membership have been overcome, but Saudi Arabia's objective of securing membership of the WTO by end-2003 is still considered difficult to meet.</p> <p>The fixed exchange rate is underpinned by the strong balance of payments and low inflation and is not expected to be threatened in the immediate future. However, downward pressure could re-emerge if international oil prices fell below, say, US\$15/barrel for an extended period.</p>	

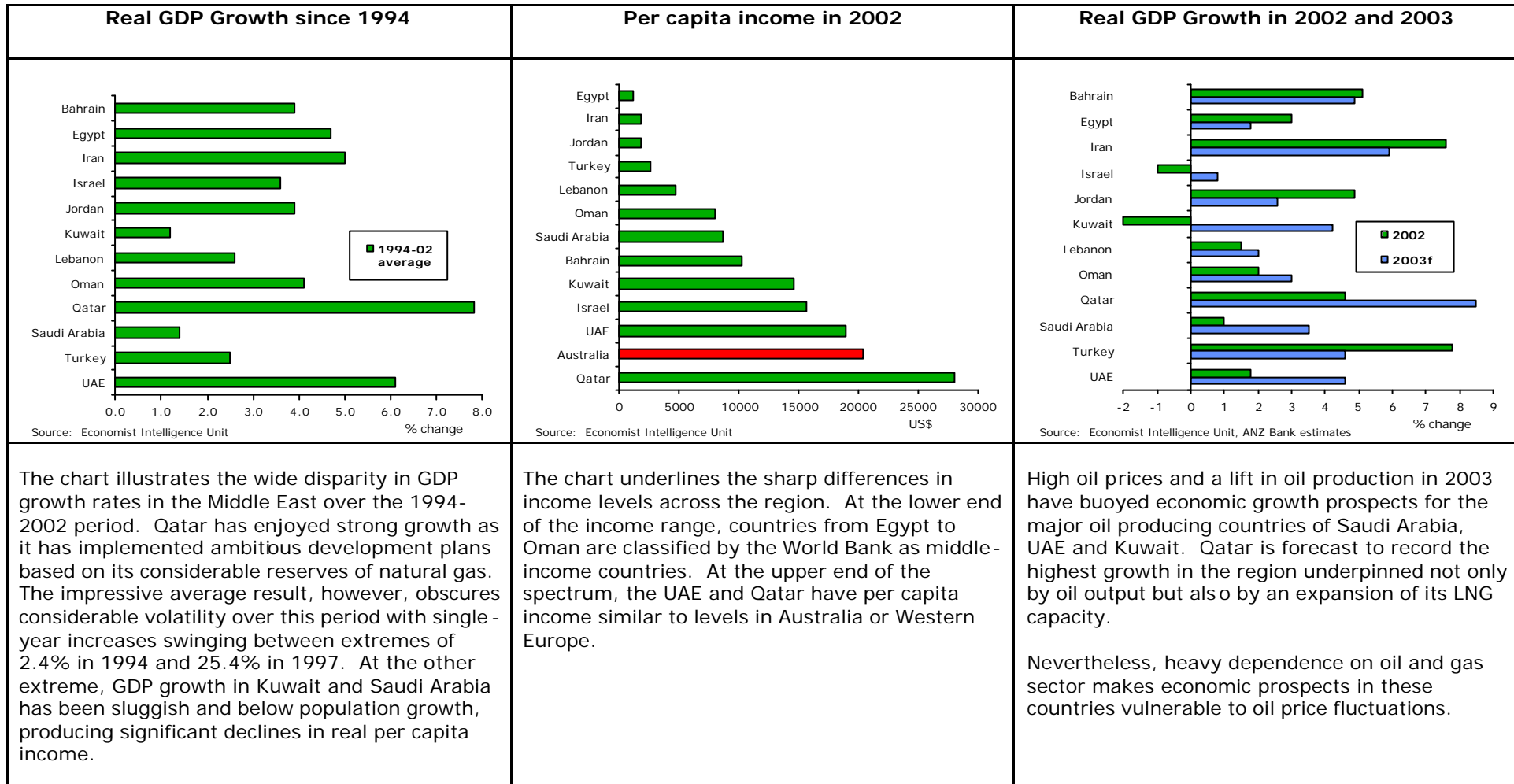
MIDDLE EAST: COUNTRY RISK ISSUES (continued)

	Politics	Economy	Balance of Payments	Other
Turkey	<p>The Justice and Development Party (AKP) won a decisive victory in the November 2002 general election and enjoys a substantial parliamentary majority. The government is pursuing far-reaching political reforms in an attempt to clear the way for negotiations about full membership of the EU to begin in 2005. The government is committed to an ambitious economic reform programme which is supported by the IMF. However, there are doubts about whether this commitment will be sustained if the government's electoral popularity is seriously threatened.</p> <p>Recent political reforms are reducing the role of the military in government, which could exacerbate the distrust that exists between the government and armed forces who consider themselves staunch defenders of the country's secular tradition. The AKP insists that it is now a modern, secular party, but suspicions persist that its Islamic origins could reassert themselves.</p> <p>Relations with the US were severely strained in early 2003 when the Turkish parliament refused to allow US land forces access to Turkey to invade Iraq. In addition, relations with the EU deteriorated when the collapse of a UN peace plan for Cyprus was blamed on the failure of the Turkish government to exert sufficient pressure on the Turkish-Cypriot side to make the necessary compromises. All sides seem to be making efforts to repair the damage to these important bilateral relationships, but it seems unlikely that the relationship with the US will ever be as close as it used to be. If a reasonable level of security were to be secured in Iraq and a US-friendly government eventuates, then the value of the strategic relationship with Turkey to Washington would probably diminish over the medium term.</p>	<p>A massive fiscal imbalance is at the heart of Turkey's severe economic problems and the main focus of the IMF stand-by arrangement worth US\$18bn that was approved in February 2002. Although Turkey is meeting the main conditions of its IMF loan, its failure to implement all of the agreed reforms has resulted in actual disbursements being delayed. While welcoming the government's commitment to economic reform, the IMF has warned that recent policy slippages have had an adverse impact on the credibility of the government's economic policies.</p> <p>The risks of another financial crisis are quite high. Any significant loss of confidence would have a severe impact on financial markets and the consequences could be a sharp fall in GDP and surge in inflation. One of the biggest risks is of the government raising public spending in an attempt to boost its popularity ahead of municipal elections in 2004. Such a course of action could produce a break in relations with the IMF and significantly increase the risk of debt default.</p>	<p>Financial pressures on Turkey increased sharply in March 2003 when the US announced that it was ending negotiations on providing direct financial assistance and loan guarantees worth up to US\$26 bn following the refusal to allow land access to US forces. In recognition that some assistance and cooperation has been forthcoming, the US has approved a smaller US\$8.5 bn loan package.</p>	

MIDDLE EAST: COUNTRY RISK ISSUES (continued)

	Politics	Economy	Balance of Payments	Other
UAE	<p>Hereditary rulers. Political parties are not allowed and there is no mechanism for participatory democracy.</p> <p>There are long-standing tensions with Iran and Saudi Arabia over disputed territory.</p> <p>The UAE relies on the US as the ultimate guarantor of its security. Ties have been tested recently by US involvement in Iraq and Afghanistan and its support for Israel.</p> <p>The federation is strong thanks to a high degree of autonomy, and the willingness of Abu Dhabi to fund 90% of federal spending.</p> <p>Only a quarter of the population of some 3 million are citizens of the UAE.</p>	<p>Economic policy is pro-business, and fosters trade and investment.</p> <p>Despite having a more diversified economy than other gulf states, there is significant dependence on crude oil, which still accounts for some 55% of domestic exports.</p> <p>There has also been a focus on large scale, capital-intensive industries such as refining, petrochemicals, aluminium, which operate in globally competitive markets.</p> <p>The EIU estimates that the consolidated budget deficit (federal plus seven individual emirates' budgets) will be over 11% of GDP this year, after 13.2% in 2002. Deficits are funded largely by drawing on the government's extensive foreign assets.</p> <p>It is proposed to "emiratise" the workforce by extending the mandatory employment quotas currently in effect in the banking sector. This appears to conflict with the UAE's "light regulation" approach to business.</p>	<p>Oil price movements produce wide swings in the current account balance.</p> <p>Nevertheless, UAE's vast accumulated external financial assets will enable it to weather periods of low oil prices or quota reductions.</p> <p>Dubai is capitalising on its geographic location and boosting investment in services, particularly financial services and tourism.</p>	

MIDDLE EAST: REGIONAL ECONOMIC DEVELOPMENTS



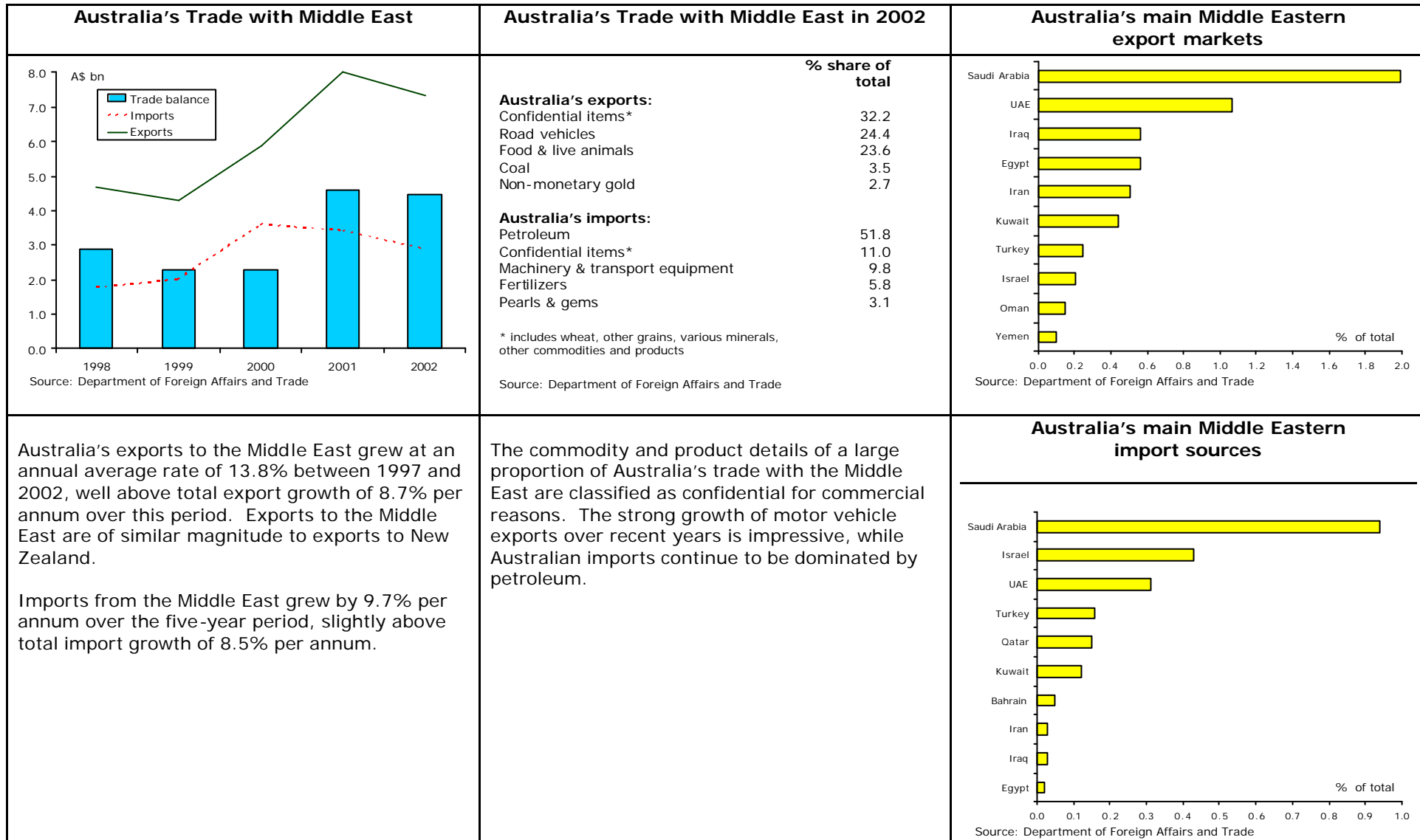
MIDDLE EAST: REGIONAL ECONOMIC DEVELOPMENTS (continued)

Budget balances	Main export markets in 2002	Current account balances
<p style="font-size: small;">This chart shows historical comparisons for individual countries. Cross-country comparisons may not be appropriate because of definitional differences.</p> <p style="font-size: x-small;">Source: Economist Intelligence Unit</p>	<p style="font-size: x-small;">Source: Direction of Trade Statistics * : Q1-Q3 2002</p>	<p style="font-size: x-small;">Source: Economist Intelligence Unit</p>
<p>Kuwait is the only economy that has consistently recorded strong fiscal surpluses largely reflecting income generated from its strong external assets position. Lebanon and Turkey, on the other hand, face strong fiscal pressures, which threaten their ability to achieve sustainable economic growth.</p>	<p>Japan and the US are among the top two export markets for a large number of Middle East countries. South Korea is another major market, particularly for Oman, Qatar and the UAE.</p>	<p>Kuwait and Qatar have recorded substantial current account surpluses over the past few years, thanks largely to high oil receipts. Lebanon's current account shortfall has narrowed over recent years. However, with imports close to six times that of exports, the deficit remains substantial and is the highest in the region.</p>

MIDDLE EAST: REGIONAL ECONOMIC DEVELOPMENTS (continued)

Ratio of External Debt to Exports in 2002	Debt Service Ratios: Gulf countries	Debt Service Ratios: other countries																																																																																																																																																								
<table border="1" style="margin-top: 10px; width: 100%; border-collapse: collapse;"> <caption>Ratio of External Debt to Exports in 2002</caption> <thead> <tr> <th>Country</th> <th>Ratio (% of Exports)</th> </tr> </thead> <tbody> <tr><td>Bahrain</td><td>~40</td></tr> <tr><td>Egypt</td><td>~140</td></tr> <tr><td>Iran</td><td>~30</td></tr> <tr><td>Israel</td><td>~150</td></tr> <tr><td>Jordan</td><td>~110</td></tr> <tr><td>Kuwait</td><td>~40</td></tr> <tr><td>Lebanon</td><td>~340</td></tr> <tr><td>Oman</td><td>~40</td></tr> <tr><td>Qatar</td><td>~120</td></tr> <tr><td>Saudi Arabia</td><td>~40</td></tr> <tr><td>Turkey</td><td>~230</td></tr> <tr><td>UAE</td><td>~40</td></tr> </tbody> </table> <p style="font-size: small;">Source: Economist Intelligence Unit</p>	Country	Ratio (% of Exports)	Bahrain	~40	Egypt	~140	Iran	~30	Israel	~150	Jordan	~110	Kuwait	~40	Lebanon	~340	Oman	~40	Qatar	~120	Saudi Arabia	~40	Turkey	~230	UAE	~40	<table border="1" style="margin-top: 10px; width: 100%; border-collapse: collapse;"> <caption>Debt Service Ratios: Gulf countries (1996-2003f)</caption> <thead> <tr> <th>Year</th> <th>Qatar</th> <th>Oman</th> <th>Bahrain</th> <th>Kuwait</th> <th>Saudi Arabia</th> <th>UAE</th> </tr> </thead> <tbody> <tr><td>1996</td><td>~15</td><td>~19</td><td>~4</td><td>~4</td><td>~3</td><td>~3</td></tr> <tr><td>1997</td><td>~21</td><td>~11</td><td>~4</td><td>~4</td><td>~3</td><td>~3</td></tr> <tr><td>1998</td><td>~23</td><td>~18</td><td>~5</td><td>~5</td><td>~4</td><td>~4</td></tr> <tr><td>1999</td><td>~18</td><td>~12</td><td>~4</td><td>~4</td><td>~3</td><td>~3</td></tr> <tr><td>2000</td><td>~15</td><td>~7</td><td>~4</td><td>~4</td><td>~3</td><td>~3</td></tr> <tr><td>2001</td><td>~19</td><td>~14</td><td>~4</td><td>~4</td><td>~3</td><td>~3</td></tr> <tr><td>2002</td><td>~20</td><td>~11</td><td>~4</td><td>~4</td><td>~3</td><td>~3</td></tr> <tr><td>2003f</td><td>~17</td><td>~11</td><td>~4</td><td>~4</td><td>~3</td><td>~3</td></tr> </tbody> </table> <p style="font-size: small;">Source: Economist Intelligence Unit</p>	Year	Qatar	Oman	Bahrain	Kuwait	Saudi Arabia	UAE	1996	~15	~19	~4	~4	~3	~3	1997	~21	~11	~4	~4	~3	~3	1998	~23	~18	~5	~5	~4	~4	1999	~18	~12	~4	~4	~3	~3	2000	~15	~7	~4	~4	~3	~3	2001	~19	~14	~4	~4	~3	~3	2002	~20	~11	~4	~4	~3	~3	2003f	~17	~11	~4	~4	~3	~3	<table border="1" style="margin-top: 10px; width: 100%; border-collapse: collapse;"> <caption>Debt Service Ratios: other countries (1996-2003f)</caption> <thead> <tr> <th>Year</th> <th>Lebanon</th> <th>Turkey</th> <th>Israel</th> <th>Jordan</th> <th>Egypt</th> <th>Iran</th> </tr> </thead> <tbody> <tr><td>1996</td><td>~10</td><td>~20</td><td>~18</td><td>~18</td><td>~12</td><td>~28</td></tr> <tr><td>1997</td><td>~15</td><td>~20</td><td>~18</td><td>~16</td><td>~10</td><td>~31</td></tr> <tr><td>1998</td><td>~25</td><td>~25</td><td>~18</td><td>~16</td><td>~11</td><td>~20</td></tr> <tr><td>1999</td><td>~35</td><td>~35</td><td>~19</td><td>~12</td><td>~11</td><td>~20</td></tr> <tr><td>2000</td><td>~33</td><td>~35</td><td>~19</td><td>~12</td><td>~8</td><td>~13</td></tr> <tr><td>2001</td><td>~35</td><td>~40</td><td>~17</td><td>~11</td><td>~10</td><td>~10</td></tr> <tr><td>2002</td><td>~48</td><td>~38</td><td>~17</td><td>~11</td><td>~10</td><td>~5</td></tr> <tr><td>2003f</td><td>~52</td><td>~28</td><td>~17</td><td>~10</td><td>~10</td><td>~5</td></tr> </tbody> </table> <p style="font-size: small;">Source: Economist Intelligence Unit</p>	Year	Lebanon	Turkey	Israel	Jordan	Egypt	Iran	1996	~10	~20	~18	~18	~12	~28	1997	~15	~20	~18	~16	~10	~31	1998	~25	~25	~18	~16	~11	~20	1999	~35	~35	~19	~12	~11	~20	2000	~33	~35	~19	~12	~8	~13	2001	~35	~40	~17	~11	~10	~10	2002	~48	~38	~17	~11	~10	~5	2003f	~52	~28	~17	~10	~10	~5
Country	Ratio (% of Exports)																																																																																																																																																									
Bahrain	~40																																																																																																																																																									
Egypt	~140																																																																																																																																																									
Iran	~30																																																																																																																																																									
Israel	~150																																																																																																																																																									
Jordan	~110																																																																																																																																																									
Kuwait	~40																																																																																																																																																									
Lebanon	~340																																																																																																																																																									
Oman	~40																																																																																																																																																									
Qatar	~120																																																																																																																																																									
Saudi Arabia	~40																																																																																																																																																									
Turkey	~230																																																																																																																																																									
UAE	~40																																																																																																																																																									
Year	Qatar	Oman	Bahrain	Kuwait	Saudi Arabia	UAE																																																																																																																																																				
1996	~15	~19	~4	~4	~3	~3																																																																																																																																																				
1997	~21	~11	~4	~4	~3	~3																																																																																																																																																				
1998	~23	~18	~5	~5	~4	~4																																																																																																																																																				
1999	~18	~12	~4	~4	~3	~3																																																																																																																																																				
2000	~15	~7	~4	~4	~3	~3																																																																																																																																																				
2001	~19	~14	~4	~4	~3	~3																																																																																																																																																				
2002	~20	~11	~4	~4	~3	~3																																																																																																																																																				
2003f	~17	~11	~4	~4	~3	~3																																																																																																																																																				
Year	Lebanon	Turkey	Israel	Jordan	Egypt	Iran																																																																																																																																																				
1996	~10	~20	~18	~18	~12	~28																																																																																																																																																				
1997	~15	~20	~18	~16	~10	~31																																																																																																																																																				
1998	~25	~25	~18	~16	~11	~20																																																																																																																																																				
1999	~35	~35	~19	~12	~11	~20																																																																																																																																																				
2000	~33	~35	~19	~12	~8	~13																																																																																																																																																				
2001	~35	~40	~17	~11	~10	~10																																																																																																																																																				
2002	~48	~38	~17	~11	~10	~5																																																																																																																																																				
2003f	~52	~28	~17	~10	~10	~5																																																																																																																																																				
<p>A country's external indebtedness is often gauged by debt-to-GDP or debt-to-exports ratios. This ratio is extremely high in Lebanon and Turkey, and at levels that cause some concern in Egypt, Israel, Jordan and Qatar.</p>	<p>Qatar's debt service obligations are demanding and reflect extensive investment in LNG production. They are considered manageable, with more long-term export agreements expected to be secured.</p>	<p>Lebanon's escalating debt service obligation has raised serious concerns about its ability to meet commitments. Debt service obligations are also onerous in Turkey; any significant deterioration in economic prospects, or threat to the current IMF agreement, would quickly reignite concerns about the prospect of debt default.</p>																																																																																																																																																								

AUSTRALIA'S TRADE WITH THE MIDDLE EAST



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