Arab Financial Sector Development and Institutions

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Abstract

Arab countries like other developing countries have embarked on financial sector reforms since the early 1990s. The purpose of this study is to discuss and shed some light on the Arab countries' financial sector institutional reform and their implications for economic development. The Arab financial sector reforms experience demonstrated that institutions have a vital role in and have positively influenced the process of Arab financial sector liberalization. It also emphasized the notion that strong and effective institutional reforms are very important ingredients for the success of financial sector reforms. For the most part, financial sector reforms have already brought about significant improvement in monetary and credit aggregates in many Arab countries. Financial sector reform has certainly had a noticeable impact on the cost of intermediation: real interest rates and gross interest margins. However, there is room for even more improvement in the coming years as competition enhancing measures and administrative costs reduction interventions are adopted.

1. Introduction

In the last decade, Arab countries, especially those of the GCC, made significant progress in building a modern financial sector. Most of the Arab countries have embarked on economic and financial reforms in recognition that economic growth and stability are often associated with increasing financial strengthening and in response to the need to quickly adopt to rapid globalization. For the most part, the financial and monetary authorities have implemented financial sector liberalization programs. These programs have included deregulation, interest rates liberalization and the gradual opening up of the financial sector to foreign participation, privatization of banks and other financial institutions and increased competition.

The role of institutions in the differential development performance of countries is currently a fairly well established historical and empirical result. A generally accepted definition of institutions is that they are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange, whether political, social, or economic. Institutional change shapes the way societies evolve through time and hence is the key to understanding historical change.

According to this understanding institutions include any form of constraint that human beings devise to shape human interaction. These constraints can be formal (such as the rules devised by human beings) or informal (such as conventions or codes or customs). Institutions affect the performance of the economy by their effect on the costs of exchange and production.

On the basis of the above, the purpose of this paper is to discuss and shed some light on the Arab countries' financial sector institutional reform and their implications for economic development. In Section II a brief look at the role of institutions in the Arab financial sector is presented. Section III gives an account of the Arab countries' financial sector institutional reform lessons. Finally, the conclusions are given in section IV.

2. The Role of Institutions in the Arab Financial Sector

As a general objective, financial sector policies, which constitute an integral part of institutions, aim to facilitate the emergence of a modern and efficient financial system which could, in turn, augment the level of the economy's degree of financial savings; ensure that investors have access to resources to finance needed investments and that those resources are efficiently allocated; and offer the best high quality financial services and instruments at a lower cost. Financial sector policies are also intended to support the process of financial system deepening and intended to provide users with alternative instruments as demanded by a modernizing and internationally integrated economy. Since in such an economy, monetary policy is more efficiently conducted via money markets, financial sector policies should be consistent with the development of indirect, market-based monetary policy instruments.

Furthermore, financial systems are naturally linked to the real economy. It is therefore necessary for financial sector policies to ensure the presence of strong prudential regulations and that those are implemented by modern supervisory institutions. In fact, the key factor behind the recently reported improvement in the Arab countries' financial sector soundness have been the strengthening of prudential regulations and supervision by these supervisory institutions, Arab Monetary Fund (AFM), (2003).

3. The Arab Financial Liberalization and Institutional Experience

Since the mid-1980s, many Arab countries have been implementing financial reform programs. An empirical study by Eltony (2003), reviewed and analyzed the financial reform experience of the Arab countries after more than ten year of the implementation of these reforms. The study recognized that the Gulf Cooperation Council (GCC) countries are faced

with a different set of challenges than the rest of the Arab countries and thus the analysis distinguished between two main groups of Arab countries. These groups are the diversified Arab economies, i.e., Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia and Yemen and the oil-based economies, i.e. Bahrain, Qatar, Kuwait, Oman, Saudi Arabia and the UAE.

Furthermore, Bisat (1996) examined in detail the experience of Arab countries with financial sector reform and liberalization: Egypt, Morocco, Tunis, Lebanon, Algeria, Sudan, Jordan, and Yemen. as well as Jbili, A., V. Galbis, and A. Bisat (1996) presented the case of financial liberalization in the six GCC countries. Furthermore, Fry (1988) presented a general review of issues of financial reform. The interaction between economic growth and financial sector reform is presented by Sundararajan (1985 and 1987), and Gertler (1988).

Financial sectors policies could be grouped into four main categories which are taken up in the context of all Arab countries recent experience. First, policies that impact financial sector efficiency and structure; second, policies that are related to monetary policy; third, policies associated with non-banking financial markets, i.e., the development capital markets; fourth, policies that are connected to the soundness of the financial system and finally, the stability of the political environment. This section attempts to summarize the main lessons from these Arab countries' experience, focusing on these five categories.

3.1 Financial Sector Efficiency and Structure

The level of efficiency emerges as financial institutions are allowed to offer their financial services at market determined prices and without quantitative or administrative restrictions. Moreover, efficiency also results from unencumbered competition. Therefore, three areas are presented in this context: interest rate policies, monetary and credit management and measures to enhance competition.

a) Interest Rate Policy

Flexible market based interest rates contribute to an efficient allocation of available financial resources, promote the mobilization of financial savings and are a main vehicle through which financial sector competition occurs.

For the most part, real interest rates are a more important policy instrument in the period after reform than in the pre-reform period. For the most part, the credit expansion that continued for a long period after reform in many Arab countries has threatened macroeconomic stability by putting pressure on price levels and the external accounts imbalance. This was especially true when real interest rates were still negative in the post reform period as this encouraged a more rapid growth of credit and slower growth of deposits. While negative real interest rates were common in pre-reform periods, their impact on credit was limited by the application of direct credit controls in many Arab countries.

In contrast, when positive real interest rates were maintained, the growth of credit slowed down compared to the initial reform period. This was emphasized by a rise in the growth rate of deposits that reacted favourably to the development of financial instruments and institutions, and to Arab banks becoming more efficient deposit users following the reduction in the Arab central bank role as liquidity provider. The above analysis strongly suggested that a necessary condition for successful reform programs in Arab countries was the adoption of prudent macroeconomic policies that resulted in positive real interest rates. Eltony (2003) revealed that except for the GCC countries, real interest rates in most of the Arab economies were negative before embarking on financial reform. By the mid-1990s all of the Arab countries showed positive signs.

Financial liberalization programs affected the cost of funds in Arab financial institutions in complicated ways. First, the removal of interest rate controls allowed banks to price credits

and risks more appropriately. This caused an increase in interest rate margins since controlled lending rates were usually set too low in the pre-reform period. Second, risk premiums rose in the period after reform as most Arab banks significantly expanded their loan portfolio to new borrowers with unconventional risks. Third, upward pressure was placed on the gross interest margin since competition in credit markets increased slowly relative to that in the deposit markets. Against those factors, financial reform in the Arab world put downward pressure on the cost of funds. In Eltony (2003) empirical evidence suggested that the gross interest rate margins in most Arab economies has been declining over time indicating an increase in competition within the financial market. This was mainly due to financial sector institutional reform. First, reserve requirements were generally lowered as part of the reform package that reduced the cost differences between deposit and lending rates. Second, competition was increased through the reduction of barriers to entry, (see Table 1A&B).

In conclusion, evidence from the experience of Arab countries suggested that during the initial reform period, most Arab banks expanded gross lending margins. However, this was institutionally corrected by a strengthening of central banks' supervision, by further reducing the reserve requirements, and by a rapid implementation of competition-enhancing measures.

b) Monetary and Credit Management

Almost all Arab financial authorities have recently taken steps to reduce administrative restitutions. In general, the financial liberalization process in the Arab world was associated with increases in the ratios of money, financial assets and credit to the private sector, to GDP, while the ratio of currency to deposits fell following the reforms. Moreover, Eltony (2003) illustrated that financial sector reform has already brought about significant improvement in monetary and credit aggregates in many Arab countries (see Table 2A , B & C). Thus, the effect of financial sector reform on the behaviour of the key monetary and credit aggregates was taken into account in setting monetary targets in the post reform period.

Financial liberalization also was followed by a period in which credit growth exceeded the growth of deposits with financial institutions. This trend could be partially explained as follows. In the period before the reform, both deposits and credits fell. The decline in the former reflected a voluntary portfolio response to financial repression. In the initial reform period there was a gradual portfolio adjustment by depositors to the new liberal financial situation. In contrast, credit growth before the reform period was constrained by direct controls with an excess demand for credit. Once the direct controls were removed, Arab financial institutions responded by meeting the excess demand for credit and credit expanded rapidly. This had the impact of increasing imbalances, and putting pressure on prices and the country's external accounts. The credit boom posed a threat to economic stability in some Arab countries; its appropriate management by the monetary institutions was very crucial to the success of financial reforms (See Table 3A, B, C).

c) Measures to Enhance Competition

The banking systems in Arab countries embarked upon financial reform were usually characterized by oligopoly market structures. As a result, the speed of adjustment of deposit and lending rates to changes in monetary policy conduct was often slow, and the margin between deposit and lending rates also adjusted slowly. While enhancing competition and interest rate liberalization had a positive impact on financial competition, the impact seemed to happen with a lag, Bisat (1996).

For the most part, because of the financial sector's institutional reform in recent years and in a bid to expand domestic and overseas markets, the Arab banking sector has witnessed a flare of activities in the area of mergers and acquisitions. For example, in 1999, the Saudi American bank acquired the United Saudi bank to form the largest Arab bank.

The financial sector in Arab countries is still characterized by high concentration and over banking in some cases. For example, the twenty-five largest Arab banks have about 59 percent of the total assets of all Arab banks, 46 percent of the total aggregate credit, 65 percent of total aggregate deposits and 56 percent of the total equities. The banking sectors of six Arab countries, Saudi Arabia, Egypt, UAE, Kuwait, Lebanon and Morocco, have about 75 percent of the total assets and 80 percent of the total deposits of all Arab banks. Furthermore, the largest three banks in Saudi Arabia have about 40 percent of the total assets and about 35 percent of the deposits. On the other hand, there are about seventy-four banks in Lebanon while the Lebanese financial sector represents only 7 percent of the total assets of the Arab financial sector. In Bahrain there are about forty-seven banks and in the UAE there are about forty-six banks while their share in total Arab assets is not more than 3 percent. The eleven banks of Saudi Arabia represent about 25 percent of the total of all Arab bank assets. This clearly indicates that there is a wide scope for competition enhancing measures to be adopted.

3.2 Monetary policy

In conducting monetary policy, most Arab central banks have traditionally relied on direct instruments such as bank specific ceilings and discretionary access to the rediscounting window. However, financial liberalization required the ability to manage interest rates and liquidity and credit aggregates through market-oriented instruments of monetary policy, i.e., indirect instruments, rather than through direct administrative fixing of various interest rates.

The experience of Arab countries however, immediately after adopting financial liberalization, indicated a need for using direct controls in order to line up credit growth with the otherwise lagging growth of bank deposits, Bisat (1996). Therefore, while there was a need for an early implementation of indirect monetary instruments, credit ceilings were used on a temporary basis so long as they were supported by positive real interest rates.

Arab money markets required an active involvement of the monetary authorities in order to ensure the existence of a reciprocal market in bank reserves. In so doing, the Arab central banks gradually switched from being the principal market maker to the role of creating and supporting the financial deepening of the market. In this new capacity, and on their own initiative, the Arab central banks withdraw (or inject) reserves in anticipation of surpluses (and deficits) emerging in the money markets while leaving market participants to make their own decisions. Thus, indirect monetary instruments are a positive and necessary step for the development of money markets in the post reform period.

One important monetary policy challenge that needs more attention is the growing size of Islamic finance. This raises the important question of how best to regulate and supervise Islamic financial institutions. Islamic financial institutions have to conduct business within a legal and monetary policy environment designed originally for conventional (non-Islamic) banking thereby having to compete with conventional banks. In general, depositors in such Islamic institutions share in the risk of the investment that their deposit is financing and neither the deposits' principal nor its return is guaranteed. This mode of operation suggests that Islamic financial institutions need close supervision and regulation. The experience of the last thirty years was contrary to this. In fact, in many Arab countries, the Islamic banks were subjected to much less supervision requirements than their conventional banking counterpart.

The Islamic financial institutions are subject to the same risks facing conventional banks. These risks have an effect on solvency and profitability and could have a systemic impact on the economy. Moreover, Islamic banking operations involve complex modes of financing,

which are accentuated by shortages of relevant skills among employees and the absence of uniform accounting and tax standards.

For the most part, the Basle Rules are appropriate for regulating and supervising Islamic financial institutions. However, these institutions could possibly be subject to lower liquidity requirements than their conventional bank counterparts.

Generally, there are three areas where stricter rules may be required:

1. Islamic financial institutions' incentives to engage in risky activities and the absence of an incentive to use collateral suggest the need for higher risk-weighted capital asset requirements.
2. Stricter information disclosure requirements and close monitoring are also important since deposits are not protected and depositors tend to allocate funds across banks according to their risk preference.
3. Islamic financial institutions face a stronger investment risk since direct investment (projects) are the main source of return for depositors and minimum use of collateral is required. Monetary authorities in Islamic countries need to ensure that Islamic financial institutions have adequate capabilities for project evaluation, appraisal, selection, auditing and monitoring.

All these issues are serious challenges for the monetary authorities and will have serious consequences for the design and conduct of monetary policies in the Arab world.

3.3 Soundness of Arab Financial Sector Policies: Prudent Regulations and Supervision Policies

The Arab Monetary Fund stressed that the soundness of the Arab banking system had serious implications on how to manage the financial liberalization process, AMF (2003). Their findings explained that this was because a system that was burdened with the rolling over of loans of weak firms or of large non-performing loans could not easily change lending priorities to adopt new venues and investments. In addition, higher interest rates on deposits compounded the cash flow problems and higher lending rates only deteriorated the bad debt problem. Thus, weak financial institutions became a greater source of pressure on Arab central banks' resources thereby affecting monetary policy design and implementation.

For the most part, the AMF emphasized that financial liberalization itself has weakened the banking sector in some Arab countries. For instance, the removal of credit restrictions before proper credit approval processes were put in place resulted in an increase in lending to more risky projects and to new activities, e.g., Egypt, Morocco, Jordan, Sudan and Yemen. This is particularly critical if, as in many Arab countries, (implicit or explicit) deposit guarantees exist which leave investors largely indifferent as to where they place their deposits. Thus, financial reform in some Arab countries was followed by a financial crisis. It therefore has been emphasized by the AMF that Arab financial sector and monetary authorities were faced with difficult constraints and lost a great deal of their effectiveness because a significant part of financial institutions have had sizeable non-performing loans and were faced with constant cash flow problems.

Therefore, AMF recommended that measures to deal with Arab banking sector problems are needed to be put in place before financial reform process starts. In addition, Arab banks need to be encouraged to improve their internal credit assessment, risk appraisal systems and strengthen their accounting and disclosure practices.

While regulations vary across countries, few Arab countries have guidelines for bank management standards and only a few systematically regulate and supervise non-bank financial activities such as Islamic banking, Islamic investment institutions and mutual funds.

International accounting and risk evaluation standards and early warning systems for the identification of bank difficulties exit in only a few Arab countries, mainly in the GCC countries: Egypt, Jordan and Tunis. All Arab countries have established provisioning and capital adequacy requirements that are generally stricter than those prescribed under the Basle Rules. Moreover, all Arab central banks carry out on-site inspections and off-site analysis of banks.

Finally, in recent years, some Arab countries have introduced deposit insurance schemes while others are in the preparation and implementation phases of introducing such schemes.

3.4 Capital Markets Development Policies

The development of Arab capital markets, within a sound regulatory framework, required a number of institutional and structural reforms including; an effective privatisation plan; a macroeconomic environment that is conducive to increasing the private sector share in the economy; and the strengthening of market forces through improving the flow of information, accounting standards, property rights, pricing efficiency and tax reforms. Finally, political stability is vital for the development of sound Arab capital markets.

Many Arab financial authorities have recognized that the development of money and capital markets is necessary for improving medium and long term financial intermediation as are enhancing savings mobilization, augmenting financial sector competition, facilitating the conduct of monetary policy through indirect instruments and attracting much needed foreign capital. In this context, almost all Arab countries embarked upon efforts to develop their capital markets (See Table 4A-B).

Nevertheless, capital markets in Arab countries are relatively new and generally small when compared with other developing countries but are rapidly expanding as the role of the private sector is increasing and the demand for equity investment is rising. However, there are still a number of Arab countries with no capital markets.

By far the largest Arab equity market is in Saudi Arabia, with a capitalization of over 70 US$ billion, followed by Egypt and Kuwait with about 29 and 27 US$ billion respectively. While the number of listed companies in Arab capital markets is on the rise, which is a positive sign, this was not reflected in the value traded, indicating that although listed, their shares were not necessarily traded in the market (See Table 5 A-B).

For the most part, corporate securities and secondary markets for government bonds have not emerged as significant vehicles for linking money and capital markets or as an engine for extending financial sector depth. Those can be revitalized by an acceleration of the privatisation drive, by supporting the structural changes in the banking sector in the period ahead and by empowering the financial sector to effectively compete in the global economy.

3.5 Stability of the Political Environment

One important source of uncertainty for the Arab financial sector has been the institutional uncertainty or instability in the political environment. Political instability is considered to be very harmful to the business environment in general and to the financial sector in particular. In the Middle East, examples of institutional uncertainties are widespread: political violence, civil wars, foreign invasions, occupation and social and political unrest. Such political instabilities cause fundamental uncertainty such as loss of life, the distraction of basic infrastructure, physical property damage or property rights loss. Cross-country studies demonstrate that bureaucratic or institutional quality in addition to political stability is strongly associated with financial sector performance, Knack and Keefer, 1995. Elbadawi, 1999, used two sets of indicators to assess the likely impact of institutional and political factors on financial sector performance in Arab countries. The first is a measure of the degree

of institutional quality, i.e., absence of corruption, enforcement of contract and protection of property rights. The other set of indicators reflects various aspects of political instabilities such as civil and regional wars, unconstitutional and violent attempts at change of governments, riots and purges of civil and military employees. Elbadawi concluded that institutional quality in the Arab world as defined by the above mentioned factors is the worst institutional support to the financial sector in particular and investment in general compared to any other region in the world. He also stated that problems with enforcement of contracts and protection of property rights were the most damaging to the Arab financial sector performance and a serious deterrent to investment in the Arab countries.

Historically, the Arab world has been the place for one of the most severe armed conflicts in the world. In addition to the Arab-Israeli conflict with all its wars and occupation resistance struggle, the Arab countries have been affected by three major wars: in the 1980s (Iraq-Iran war), 1990s (the Gulf war) and 2003 (Iraqi war) as well as several violent forms of political dissent, including civil wars such as the Lebanese and Sudanese civil wars. Therefore, the evidence suggests that the Arab world is one of the most politically unstable regions of the world and the quality of institutions in the region is weak. This conclusion has serious implications for the stability and performance of the Arab financial institutions.

4. Conclusions

The Arab financial sector reform experience demonstrated that institutions have a vital role and can positively influence the process of Arab financial sector liberalization. It also emphasized the notion that strong and effective institutional reforms are very important ingredients for the success of financial sector reforms. For the most part, the implementation of financial reforms has already caused major improvements in monetary and credit aggregates in many Arab banking sectors. However, there appear to be plenty of room for even more improvements over the next few years. It is highly likely that many Arab bank reforming countries will still experience declining currency to deposit ratios, will also experience a change from foreign to domestic currency deposits and a changeover from short term banking deposits and liabilities to long term counterparts. Moreover, for Arab countries in their early phases of financial reforms such as Syria, Algeria and Yemen, the scope for institutional and structure improvements is even greater. Financial reform in the Arab countries has definitely had a noticeable impact on the cost of intermediation as manifested by real interest rates and gross interest margins. However, there is room for even more improvements over the next several years as competition enhancing measures and administrative costs reduction interventions are further adopted.

Moreover, enhancing competition measures and the removal of administrative restrictions are essential for the development of efficient and modern Arab financial sector. The sustained efforts by many Arab countries in this regard is proving to be necessary especially since the experience of the last decade suggested that such policies tend to take a long time before they become effective in the market place.

Most of the Arab central banks are in the process of developing market based monetary instruments and a few still retain direct ones. Furthermore, a great deal of effort was employed by Arab central banks to maintain financial stability through prudent fiscal and monetary policies and prudential regulations and supervision measures. However, Arab capital markets remain largely underdeveloped, new and small when compared with other developing countries but are rapidly expanding as the role of the private sector is increasing and the demand for equity investment is rising. Finally, the evidence suggests that the Arab world is one of the most politically unstable regions of the world and the quality of institutions in the region is weak. This conclusion has serious implications for the stability and performance of Arab financial institutions.

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Table 1A: Interest Rate Indicators; 1992-2000 (In percent)

	Real Deposit Rates						
	1992	1995	1996	1997	1998	1999	2000
Algeria	-15.8	-6.6	-3	-4.2	-0.3	5.5	4
Egypt	-3.6	0.5	-2.2	6	8.2	8.4	7.4
Jordan	-0.7	0.2	2	5.9	4.8	7.6	6.2
Lebanon	-46.8	5.0	-2.1	3.3	7.3	2.5	5.5
Morocco	3.5	2.4	2.0	2.3	4.5	5.6	3.3
Syria	-2.7	-6.1	-3.2	-3.2	2.9	5.9	7.1
Tunisia	3.6	0.5	4.9	3.2	3.5	3.0	2.6
Yemen	-25.6	-23.1	-6.3	8	0.3	7.3	-1
		1995	1996	1997	1998	1999	2000
Bahrain		3.8	4.7	2.8	5.1	-1	6.9
Kuwait		3.1	2.5	5.3	6.1	2.7	3.9
Oman		6.2	6.8	7.2	9.3	7.7	8.7
Qatar		1.0	-.9	3.6	3.7	4.1	7.2
Saudi Arabia		3.9	4.3	5.6	6.5	7.2	7.5
United Arab Emirates		-	-	-	-	-	-

Source: International Financial Statistics, IMF.

Table 1B: Interest Rate Indicators; 1992-2000 (In percent)

	Gross Interest Rate Margin						
	1992	1995	1996	1997	1998	1999	2000
Algeria	10.0	7.5	4.5	2.8	3.5	3.0	2.8
Egypt	3.6	4.6	5.0	4.0	3.7	3.8	3.8
Jordan	6.5	5.8	2.8	0.8	1.6	4.0	4.8
Lebanon	23.1	8.4	9.7	7.0	7.0	7.0	6.9
Morocco	10.0	8.2	7.0	9.0	10.0	10.0	9.8
Syria	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Tunisia	6.9	6.9	5.4	6.0	4.9	3.5	4.5
Yemen	5.0	8.0	7.7	7.6	3.4	3.8	5.0
		1995	1996	1997	1998	1999	2000
Bahrain		6.7	7.3	7.0	7.2	7.1	6.8
Kuwait		2.4	2.7	2.9	2.6	2.8	3.0
Oman		1.9	2.4	2	1.6	2.2	2.5
Qatar		1.4	1.8	1.5	1.4	1.4	1.3
Saudi Arabia		-	-	-	-	-	-
United Arab Emirates		-	-	-	-	-	-

Source: International Financial Statistics, IMF

Table 2A: Monetary Indicators; 1992-2000 (In percent)

	Currency to Deposit Ratio						
	1992	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Algeria	41.2	35.8	52.0	50.8	48.3	47.3	46.2
Egypt	10.8	11.4	16.2	16.6	17.3	18.1	17.2
Jordan	31.5	25.6	25.1	24.1	21.7	22.7	22.9
Lebanon	7.2	4.8	4.2	3.6	3.2	3.1	3.0
Morocco	34.7	32.0	32.7	27.0	26.4	48.3	25.0
Syria	60.0	73.3	81.2	92.5	87.7	64.6	73.3
Tunisia	35.7	22.4	20.7	18.7	18.9	18.9	18.3
Yemen	97.7	94.5	103.9	93.9	86.1	89.9	80.4
		1995	**1996**	**1997**	**1998**	**1999**	**2000**
Bahrain		7.8	7.5	7.1	5.3	6.3	6.0
Kuwait		4.4	5.1	4.7	4.8	6.1	5.4
Oman		18.5	16.5	13.5	12.9	18.8	19.2
Qatar		8.2	7.7	7.8	6.9	7.1	6.2
Saudi Arabia		29.0	25.1	25.2	24.1	27.9	23.8
United Arab Emirates		8.5	8.4	8.4	9.1	10.3	8.6

Source: International Financial Statistics, IMF

Table 2B: Monetary Indicators; 1992-2000 (In percent)

	M2 to GDP Ratio						
	1992	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Algeria	53.0	40.5	35.6	39.2	46.1	42.7	40.9
Egypt	75.2	74.2	79.0	77.9	78.9	77.4	77.6
Jordan	120.0	111.7	95.3	98.4	96.2	110.0	112.0
Lebanon	125.0	126.9	125.6	119.5	125.4	122.3	127.0
Morocco	60.4	63.2	62.2	72.5	71.5	51.6	58.9
Syria	59.2	62.4	64.1	65.1	62.3	59.7	60.2
Tunisia	43.1	38.9	40.1	42.7	43.6	45.1	45.7
Yemen	32.4	40.5	35.6	39.2	46.1	35.8	37.5
		1995	**1996**	**1997**	**1998**	**1999**	**2000**
Bahrain		65.8	65.1	67.4	80.8	78.6	79.2
Kuwait		93.1	78.8	84.1	97.6	84.6	70.4
Oman		28.5	27.8	33.4	39.4	37.8	38.2
Qatar		62.9	59.6	52.5	62.5	58.5	54.6
Saudi Arabia		50.4	48.9	49.7	58.7	56.4	48.9
United Arab Emirates		55.3	53.1	52.3	57.8	55.4	58.7

Source: International Financial Statistics, IMF

Table 2C: Monetary Indicators; 1992-2000 (In percent)

	M1 to M2 Ratio						
	1992	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Algeria	78.4	64.9	64.4	62.2	63.8	60.6	60.2
Egypt	25.7	22.9	24.7	24.4	26.5	25.3	23.8
Jordan	41.5	33.8	32.3	31.8	29.7	28.2	29.9
Lebanon	12.5	6.8	6.1	5.6	5.1	5.0	4.9
Morocco	77.3	72.9	72.4	72.2	73.4	60.8	73.9
Syria	79.9	78.2	64.3	69.1	67.5	66.1	65.5
Tunisia	47.9	48.2	46.5	45.1	45.9	44.9	43.2
Yemen	68.7	61.8	59.0	56.4	54.6	55.2	52.6
		1995	**1996**	**1997**	**1998**	**1999**	**2000**
Bahrain		22.9	22.5	21.6	19.5	21.8	20.7
Kuwait		16.1	17.0	16.4	15.1	17.9	17.9
Oman		31.2	30.8	27.0	23.7	22.5	22.8
Qatar		20.0	19.8	19.1	18.1	16.1	15.5
Saudi Arabia		51.9	51.4	51.9	49.7	52.0	52.6
United Arab Emirates		25.6	25.6	26.8	28.1	27.5	26.8

Source: International Financial Statistics, IMF

Table 3A: Credit Indicators; 1992-2000 (In percent)

	Credit to Private/Total Credit						
	1992	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Algeria	9.1	10.7	13.0	9.3	10.1	10.9	-
Egypt	24.0	45.3	49.8	53.6	56.9	59.8	59.2
Jordan	58.0	78.3	81.7	84.5	79.8	82.5	84.6
Lebanon	51.0	66.3	61.2	56.8	54.8	54.5	50.2
Morocco	22.3	54.5	56.4	58.1	60.1	63.8	64.2
Syria	9.6	23.2	24.8	26.5	27.3	29.6	33.7
Tunisia	49.5	96.1	96.9	95.2	95.4	93.4	90.3
Yemen	7.4	11.0	11.5	11.8	17.6	17.5	26.9
		1995	**1996**	**1997**	**1998**	**1999**	**2000**
Bahrain		155.6	169.4	157.7	138.6	121.8	156.3
Kuwait		32.2	42.4	50.8	53.6	55.5	59.9
Oman		99.8	100.6	107.1	99.6	108.4	99.6
Qatar		56.8	52.6	57.0	55.9	51.9	67.0
Saudi Arabia		74.2	77.2	70.6	71.4	65.4	70.2
United Arab Emirates		102.8	101.0	99.3	100.2	98.9	108.5

Source: International Financial Statistics, IMF

Table 3B: Credit Indicators; 1992-2000 (In percent)

	Credit to Public/Total Credit						
	1992	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Algeria	60.8	89.3	87.0	90.7	89.9	89.1	-
Egypt	70.4	54.7	50.2	46.4	43.1	40.2	40.8
Jordan	35.0	21.7	18.3	15.5	20.2	17.5	15.4
Lebanon	29.6	33.7	38.8	43.2	45.2	45.5	49.8
Morocco	27.7	45.5	44.6	41.9	39.9	36.2	35.8
Syria	48.7	76.8	75.2	73.5	72.7	70.4	66.3
Tunisia	7.1	3.9	3.1	4.8	4.6	6.6	9.7
Yemen	87.2	89.0	88.5	88.2	82.4	82.5	73.1
		1995	**1996**	**1997**	**1998**	**1999**	**2000**
Bahrain		(55.6)	(69.4)	(57.7)	(38.6)	(21.8)	(56.3)
Kuwait		67.8	57.6	50.2	46.4	44.5	40.1
Oman		0.2	(0.6)	(7.1)	0.4	8.4	0.4
Qatar		43.2	47.4	43	44.1	48.1	33
Saudi Arabia		25.8	22.8	29.4	28.6	34.6	29.8
United Arab Emirates		(2.8)	(1.6)	0.7	(0.2)	1.1	(8.5)

Source: International Financial Statistics, IMF

Table 3C: Credit Indicators; 1992-2000 (In percent)

	Credit from Central Bank/Total Credit						
	1992	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Algeria	12.5	19.6	24.4	18.8	17.8	19.5	-
Egypt	5.4	1.3	1.1	1.0	0.9	1.2	1.0
Jordan	12.6	3.2	2.8	3.0	2.6	2.4	2.3
Lebanon	2.3	1.8	0.5	0.3	0.9	1.0	1.6
Morocco	2.0	0.7	1.4	0.4	1.2	0.4	2.2
Syria	24.1	38.1	44.6	49.5	50.8	58.8	68.8
Tunisia	14.3	9.2	1.6	1.1	1.0	0.6	2.4
Yemen	-	-	-	-	-	-	-
			Credit to Public/Total Credit				
		1995	**1996**	**1997**	**1998**	**1999**	**2000**
Bahrain		(55.6)	(69.4)	(57.7)	(38.6)	(21.8)	(56.3)
Kuwait		67.8	57.6	50.2	46.4	44.5	40.1
Oman		0.2	(0.6)	(7.1)	0.4	8.4	0.4
Qatar		43.2	47.4	43	44.1	48.1	33
Saudi Arabia		25.8	22.8	29.4	28.6	34.6	29.8
United Arab Emirates		(2.8)	(1.6)	0.7	(0.2)	1.1	(8.5)

Source: International Financial Statistics, IMF

Table 4A: Capital Market Indicators; 1992-2000

	1992	1993	1994	1997	2000
	Market Capitalization in billions of US$				
Egypt	3.3	3.8	4.3	20.8	21.9
Jordan	3.4	4.9	4.5	5.4	5.8
Morocco	1.9	2.7	4.4	12.2	13.7
Tunisia	0.8	1.0	2.6	2.3	2.6
	Market Capitalization as a percent of GDP				
Egypt	7.9	8.1	8.3	20.8	23.2
Jordan	66.2	87.4	75.3	77.4	79.4
Morocco	6.7	10.1	14.2	36.8	43.2
Tunisia	5.2	6.9	16.5	12.2	12.7

Source: International Financial Statistics, IMF

Table 4B: Capital Market Indicators in GCC; 1988-2001

	1988	1997	2001
	Market Capitalization (US$ Million)		
Bahrain	1,964	7,826	6,384
Kuwait	11,836	25,880	26,682
Oman	692	7,108	3,202
Saudi Arabia	22,940	59,386	69,621
	Market Capitalization of Listed Companies (% of GDP)		
Bahrain	46.8	135.2	112.1
Kuwait	57.2	85.2	87.3
Oman	8.5	54.0	33.7
Saudi Arabia	22.6	42.3	47.1

Table 5A: Capital Market Indicators; 1992-2000

	1992	1993	1994	1997	2000
	Value Trade in millions of US$				
Egypt	300	170	360	600	690
Jordan	1,310	1,380	620	770	940
Morocco	0	1000	790	1,070	1,840
Tunisia	0	0	300	970	1,730
	Number of Domestic Companies Listed				
Egypt	656	674	700	760	820
Jordan	103	101	95	139	152
Morocco	62	65	61	49	54
Tunisia	17	19	21	34	44

Source: International Financial Statistics, IMF

Table 5B: Capital Market Indicators in GCC; 1988-2001

	1988	1997	2001
	Total Value Traded Ratio (% of GDP)		
Bahrain	2.3	8.1	15.7
Kuwait	13.1	103.1	107.1
Oman	2.9	29.4	22.4
Saudi Arabia	5.4	12.7	28.5

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