



QATAR NATIONAL BANK

(S. A. O.)

1981
Annual Report
and
Accounts

QATAR NATIONAL BANK, S.A.Q.

Established 1965

*Seventeenth Annual Report of the Directors
and Balance Sheet for the year ended
31st December 1981*

With the Compliments of
The Chairman and Board of Directors
of
Qatar National Bank, S.A.Q.
DOHA - QATAR

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His Highness Sheikh Khalifah Bin Hamad Al-Thani
Amir of State of Qatar



**H.H. SHEIKH HAMAD BIN KHALIFA AL THANI
HEIR APPARENT, MINISTER OF DEFENCE,
COMMANDER-IN-CHIEF OF THE ARMED FORCES**



Ministry of Foreign Affairs

**BOARD OF
DIRECTORS**

Chairman

His Excellency Sheikh Abdul Aziz
Ben Khalifa Al-Thani
Minister of Finance & Petroleum

Members

Mr. Ahmad M. Suwaidi
Mr. Abdullah Abdulghani
Mr. Yousuf Jasem Darweesh
Mr. Ahmad Mannai
Mr. Haider S. Haider
Mr. Abdulkadir Qadi

**GENERAL
MANAGER**

Mr. Hamdi Alami





Annual Traditional Boat Race

**HEAD
OFFICE
AND
BRANCHES**

HEAD OFFICE

P.O. Box 1002, Doha
Telegraphic Address Qatarbank
Telex 4636 Qbkgm Dh
4635 Qbkfex Dh
Telephone Number 413511 (10 Lines)

**LOCAL BRANCHES
DOHA**

Main Branch
P.O. Box 1000, Doha
Telegraphic Address Qatarbank
Telex 4212 Qatbnk Dh
4357 Qatbnk Dh
4064 Qatbnk Dh
Telephone Number 413511 (10 Lines)

Airport Road
P.O. Box 3252, Doha
Telegraphic Address Qatarbank
Telephone Number 328868

Airport
Telephone Number 25500

Mushaireb
P.O. Box 1818, Doha
Telegraphic Address Qatarbank
Telex 4845 Qatbnk Dh
Telephone Number 23464, 24077, 23643

Gulf Hotel
Telephone Number 328606

Qatar University
Telephone Number 861633

Doha Sheraton Hotel
Telephone Number 831104

**OTHER
LOCATIONS**

Umm Said
P.O. Box 10050,
Umm said
Telegraphic Address Qatarbank, Umm said
Telephone Number 771599, 771791

Al Khor
P.o. Box 20030, Al Khor
Telegraphic Address Qatarbank, Al Khor
Telephone Number 720127

Al Shamal
P.o. Box 130222,
Al Shamal
Telephone Number 731246





Doha Sheraton Hotel

FOREIGN BRANCHES

**London-
City**

131-145 Cannon Street
London EC4N 5AH
Telephone Number
0441-283 3911
Telex 889203 Qatbnk G

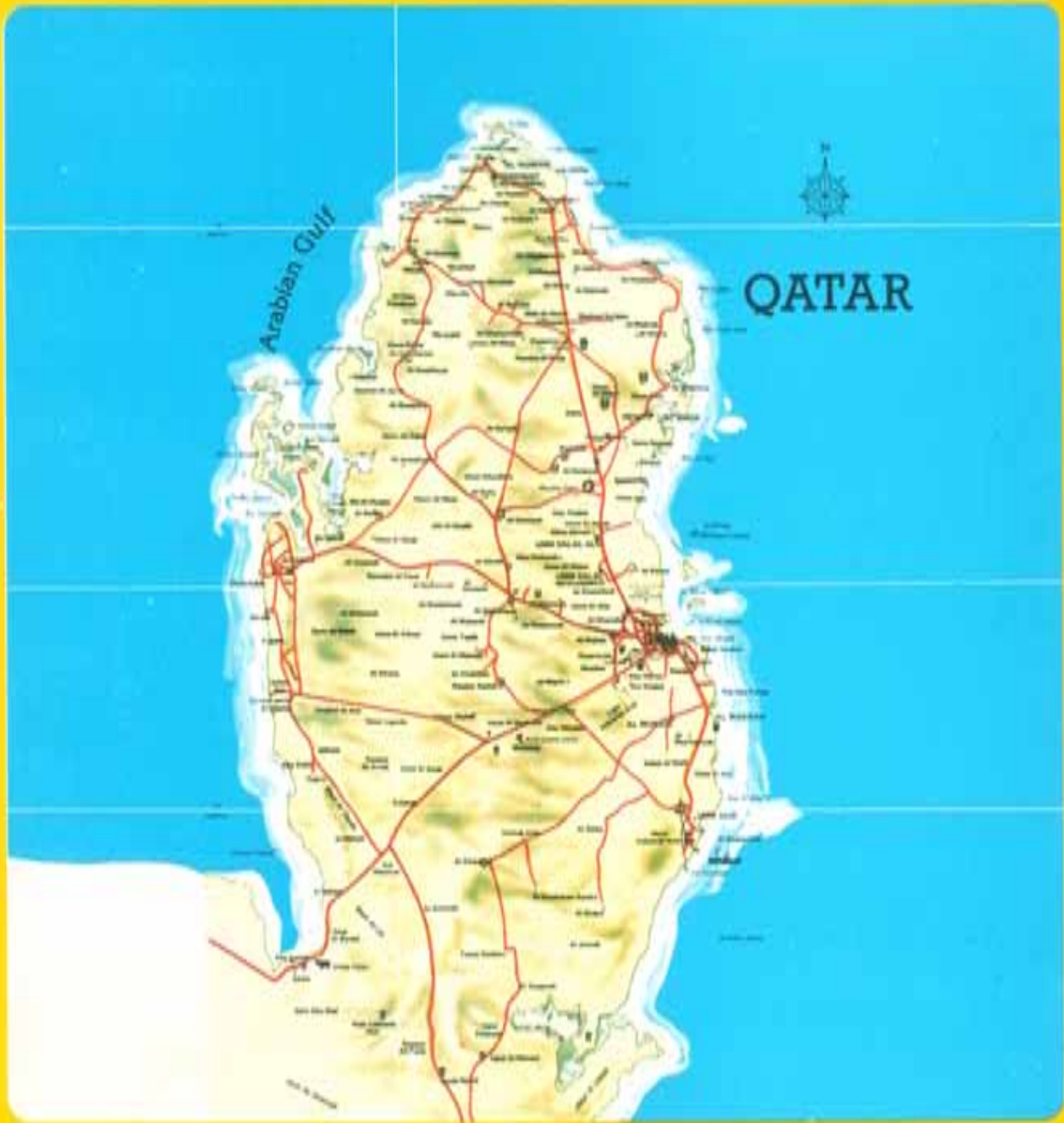
Paris

17 Avenue Matignon
75008 Paris
Telephone Number
0331-359 5812
Telex 641344 Qatarbk

West End

36 Curzon Street
London W1Y 7AF
Telephone Number
0441-493 7411
Telex
298698 Qnbcur





CHAIRMAN'S
STATEMENT

I am pleased to present to you the bank's Seventeenth Annual Report for the year ended December 31, 1981. The Report clearly demonstrates that your institution has continued its progress and growth in all its fields of operation. It is noteworthy to state that all the bank's branches in Qatar and abroad have contributed to this effort. The bank's net profits in 1981 increased by 11.4% rising to QR 71.0 million compared with QR 63.7 million in 1980.

It should be stressed here that this bank was not only a commercial bank, since it was active in different aspects of economic activity. Its operations in the State of Qatar during 1981 were not, as before, restricted to short-term commercial financing, but they covered long-term financing including industrial and construction financing. The bank's short-term financing during 1981 was 81.7% above its 1980 level. Short-term financing amounted to QR 1,419.2 million in 1981 compared with QR 781.1 million in 1980. Long-term financing at the end of 1981 amounted to QR 523.1 million.

Total deposits with your bank for both institutions and individuals increased rapidly during 1981. Current accounts, savings accounts and fixed-term deposits rose during 1981 by 14.8% to QR 3,603.8 million against QR 3,139.5 million in 1980. Fixed deposits and current accounts of banks held by your institution rose by 94.7% during 1981. They amounted to QR 1,388.1 million compared with QR 712.8 million in 1980.

The bank's total assets increased markedly during 1981 at an annual rate of 29.1%. They grew to QR 5,492.3 million compared with a total of QR 4,255.4 million at the end of 1980.

Your bank has also continued to expand its operations through the establishment of more branches. During 1981, it opened two more branches in Qatar. We intend to widen the scope of your bank's operations through the establishment of more branches in Qatar and abroad, as well as through greater participation in different banking operations.

I would like to take this opportunity to extend my deep gratitude and appreciation to His Highness the Emir Sheikh Khalifa Ben Hamad





Public Housing - Doha

Al-Thani and His Highness the Heir Apparent Sheikh Hamad Ben Khalifa Al-Thani for the continuous support and goodwill they extend to this bank which contributed in large part to the encouraging results the bank was able to accomplish.

I want to thank the Board members for their sincere efforts in supporting the bank's activities and their expansion.

I would also like to thank the bank's staff for their dedication, efficiency and hard work in carrying out their responsibilities.

Abdul Aziz Ben Khalifa Al-Thani
Chairman, Board of Directors



REPORT
OF THE
BOARD OF
DIRECTORS

The Board of Directors is pleased to present to you the bank's Seventeenth Annual Report including its Balance Sheet and Profit and Loss Statement for the year ended December 31, 1981.

Information contained in the preceding statements point to the growth and progress your institution was able to accomplish in the different fields. The bank's profits for 1981 amounted to QR 71,017,506 compared with QR 63,730,670 in 1980, realizing a growth rate of 11.4% during this period. It is noteworthy to state that all of your bank's branches have contributed to this year's profits.

The bank's Balance Sheet indicates that the bank continued to expand in the various areas of its operations. At the end of 1981, total deposits with the bank amounted to QR 3,603.8 million compared with QR 3,139.5 million in 1980, rising by 14.8% during this period. Bank's deposits with your institution grew to QR 1,388.1 million in 1981 as against QR 712.8 million for 1980, growing by 94.7% during the year.

The assets side of the bank's Balance Sheet indicates that your bank was expanding its services, while continuing to follow sound banking practices.

Cash on hand and deposits with banks at the end of 1981 were QR 3,258.0 million compared with QR 2,630.6 million for 1980, increasing by 23.9% over the period. The bank has therefore continued to follow a policy of keeping a high ratio of liquidity.

The bank has also kept up its trade financing operations in Qatar and overseas. Financing of current operations rose from QR 781.1 million in 1980 to QR 1,419.2 million in 1981 growing by 81.7% during this period. The rapid growth in short-term financing contributed to the contraction in the bank's long-term financing. Long-term financing declined from QR 549.8 million in 1980 to QR 523.1 million in 1981 at a rate of 4.9% during the period.

The international credit markets were vacillating during 1981 under the influence of high interest rates payable on foreign currencies particularly the U.S. dollar. Accordingly, the bank followed a policy of caution



in participating in the international capital markets during the year which resulted in reducing its holdings of marketable securities. The value of marketable securities held by the bank has declined from QR 200.6 million in 1980 to QR 164.6 million in 1981 contracting by 17.9% during this period. The bank has, however, continued to direct an important portion of its investment funds for the purpose of fostering economic growth and cooperation in the Arab countries.

In an effort to broaden its service base, the bank opened during 1981 a number of branches in Qatar. The Board is hopeful that it will continue to expand and strengthen your bank's operations in Qatar and overseas. In the meantime, the bank has continued to improve its services to its clients through the recruitment of new staff with special emphasis on qualified staff in an effort to improve the quality of its services.

At the end of 1981, shareholders equity increased to QR 407.3 million compared with QR 347.5 million in 1980 increasing by 17.2% over the period. Total assets rose in 1981 by 29.1% from QR 4,255.4 million in 1980 to QR 5,492.3 million in 1981. Contra accounts were QR 2,558.6 million in 1981 against QR 2,045.4 million in 1980, rising by 25.1% over this period.

In view of the bank's encouraging results during 1981 and following the Board's policies in previous years, it has been decided to pay the shareholders a dividend of 20% for that year. The balance of the year's profits was transferred to reserves.

The Board is confident that your bank will persist in strengthening its operations in Qatar and overseas in order to provide its clients with a better service as well as to assist in the economic development of the countries it operates in.

The Board would like to record its sincere gratitude and appreciation to **H.H. The Emir Sheikh Khalifa Ben Hamad Al-Thani** and **H.H. The Heir Apparent Sheikh Hamad Ben Khalifa Al-Thani** for the support and the confidence they awarded your bank's operations within the framework of the economic development of the State of Qatar.

The Board wishes also to thank the bank's staff for their sincere efforts in carrying out their duties which enabled the bank to achieve a satisfactory performance during the past year.

Board of Directors



THE
AUDITORS
REPORT

The Shareholders
Qatar National Bank — S. A. Q.
Doha — Qatar

We have examined the Balance Sheet of QATAR NATIONAL BANK, S.A.Q., Doha-Qatar, as at December 31, 1981 and the related Statement of Income and Retained Earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, and we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our examination.

In our opinion, the accompanying financial statements present fairly the financial position of Qatar National Bank, S.A.Q., Doha-Qatar, as at December 31, 1981 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles as adapted by banking practices in Qatar, applied on a basis consistent with that of the preceding year, and give all the information required by the Law and the Bank's Bye-Laws. We are also of the opinion that proper books of account were kept by the bank and that the stocktaking was carried out in accordance with recognised principles. To the best of our knowledge and belief, and according to the information given to us, no contraventions of the Law or the Bank's Bye-Laws were committed during the financial year in such a way so as to affect materially the bank's activities or its financial position.

Doha-Qatar
April 6, 1982

SABA & CO.
External Auditors



Statement of Income and Retained Earnings for
the Year Ended December 31, 1981

Particulars	1981 QR	1980 QR
Income		
Interest earned, commission received, profit on exchange and other income	715,994,865	576,018,258
Expenses		
Interest paid, general and administrative expenses, provisions and other expenses	644,977,359	512,287,588
Net income for the year	71,017,506	63,730,670
Provisions no longer required	—	14,000,000
Retained earnings at January 1	314,885	484,215
Total	71,332,391	78,214,885
Bouns shares during the year	—	14,000,000
Net income available for appropriation	71,332,391	64,214,885
Transfer to statutory reserve	2,800,000	11 200 000
Proposed cash dividends	11,200,000	11,200,000
Transfer to special reserve	57,000,000	41,500,000
Total appropriations	71,000,000	63,900,000
Retained earning at December 31	332,391	314,885

The Accompanying Notes Are An Integral Part Of This Statement



Balance Sheet as at

Assets	1981 Q. Riyal	1980 Q. Riyal
Cash, current accounts and deposits with banks	3,258,045,049	2,630,621,049
Marketable securities — Note 1b	164,658,219	200,640,869
Bills discounted	93,248,008	65,179,116
Advances (Net) and other debit balances	1,325,948,642	715,938,848
Interest receivable and prepaid expenses	91,560,077	45,165,898
Long-term loans	523,112,539	549,836,650
Investments in associated companies and others - at cost - Note 1c	11,140,456	17,106,499
Property, plant and equipment (at cost net of accumulated depreciation)— Notes 1a & 4	24,628,628	30,924,303
Total Assets	5,492,341,618	4,255,413,232
Customers liabilities on confirmed credits, acceptances and guarantees— per contra	2,558,574,920	2,045,419,465
Total	8,050,916,538	6,300,832,697

Hamdi Alami
General Manager

The Accompanying Notes



December 31, 1981

Liabilities and Shareholders Equity	1981	1980
	Q. Riyal	Q. Riyal
Liabilities		
Current, savings deposits and other accounts (including provision for contingencies)	3,603,825,211	3,139,459,585
Due to banks	1,388,062,263	712,837,300
Proposed cash dividends	11,200,000	11,200,000
Provisions and accrued expenses	81,921,753	44,401,462
Total liabilities	5,085,009,227	3,907,898,347
Shareholders Equity		
Capital (560,000 common shares QR 100 par value)	56,000,000	56,000,000
Statutory reserve	56,000,000	53,200,000
Special reserve	295,000,000	238,000,000
Retained earnings	332,391	314,885
Shareholders equity	407,332,391	347,514,885
Total Liabilities and Shareholders Equity	5,492,341,618	4,255,413,232
Liabilities on confirmed credits, acceptances and guarantees - per contra	2,558,574,920	2,045,419,465
Total	8,050,916,538	6,300,832,697

Abdul Aziz Ben Khalifa Al-Thani
Chairman, Board of Directors

are an Intergral Part of this Statement



1. Significant Accounting Policies

- a) Property, plant and equipment are stated at cost less accumulated depreciation computed on the straight-line method over their estimated useful lives.
- b) Investments in marketable securities are stated at the lower of aggregate cost or market.
- c) Investments in associated companies and others are stated at cost.
- d) Assets and liabilities in foreign currencies at the year end are translated into Qatari Riyals at the lowest exchange rates for those currencies at that date. Gains and losses arising thereon are taken to current income.

2. The Financial Statements

- a) The accompanying combined financial statements include all the assets, liabilities and results of operations of all the Bank's branches in Qatar, United Kingdom and France.
- b) All material inter-branch profits, transactions and balances are eliminated.

3. Income Tax Exemption

The bank has been exempted from income tax in Qatar, for the five years commencing March 23, 1981 in accordance with the Cabinet decision No. 2 of 1982.

4. Property, Plant and Equipment

The cost of property, plant and equipment does not include the value of lands on which the central office and other branches buildings are erected. Those lands were granted to the Bank by the Government of Qatar free of charge.

5. Contingencies and Commitments

The following contingencies and commitments were outstanding as at December 31, 1981 :

Particulars	1981	1980
	QR	QR
Bills held for collection	40,987,595	39,965,142
Forward foreign exchange contracts	52,492,586	135,226,329



Government Spending in 1401

In view of the non-availability of statistical data on the Qatari national product, one may utilize the main economic indicators in the State to measure economic developments within the State. Government spending is considered to be the primary economic indicator because of its far reaching impact on the Qatari economy. Available data indicates that Government spending continued to grow rapidly over the past number of years. The following Table shows the revenues and the expenditures of the State of Qatar for the Hijri (lunar) years 1399-1401.

Table (1)
Revenue and Expenditure of the
State of Qatar for the Years 1399-1401
(In Millions of Qatar Riyals)

Particulars	1399	1400	1401
Total Revenue	12,090	19,003	19,243
Crude oil revenue	11,220	17,454	17,189
Other revenue	870	1,549	2,054
Total Expenditure	8,270	10,937	14,743
Recurring expenditure	5,829	7,648	11,125
First chapter	(1,602)	(2,109)	(2,698)
Second chapter	(3,745)	(4,401)	(5,728)
Third chapter	(482)	(1,138)	(2,699)
Capital projects			
Fourth chapter	2,441	3,289	3,618

The preceding data shows that total spending of the State of Qatar during the year 1401 increased to QR 14,743 million compared with QR 10,937 million in 1400, registering an increase of 34.8% during this period. It is worthy to note that the rise in government spending was primarily due to a rapid growth in recurring expenditures which grew from QR 7,648 million in the year 1400 to QR 11,125 million during 1401, registering an increase of 45.5% over the period. Government spending on capital projects rose marginally during this period from QR 3,289 million in 1400 to QR 3,618 million in 1401, rising by 10% during the year. These



figures might suggest that the need to sustained significant increases in capital spending in Qatar and other Arabian Gulf states does not anymore arise, particularly after these states had apparently financed their requirements for the major expansion in capital spending over the past number of years. The preceding data may also indicate that the Arabian Gulf states have begun to expand the scope of services provided to their citizens as well as to improve the quality of available services.

Revenues of the State of Qatar in 1401

Table (1) shows that the revenues of the State of Qatar during the year 1401 amounted to QR 19,243 million compared with QR 19,003 million in 1400, rising by 1.3% over the year. The Table also exhibits that the earnings of the State of Qatar from sales of crude oil were basically stable during this period. They were QR 17,454 and QR 17,189 million for the years 1400 and 1401 respectively, recording a decline of 1.5% over this period.

The State of Qatar might be one among a few number of the member states of the Organization of Petroleum Exporting Countries (OPEC) whose crude oil prices were not substantially affected by developments in the international crude oil markets during the year 1981. This is because crude oil exports of the State of Qatar are almost divided equally between heavy and light crudes. As a result of the contraction in 1981 in the demand for oil, the State of Qatar has apparently resorted to a strategy of stabilizing its exports of light crude oil, the demand for which was not adversely affected by the overall demand for oil. In 1981, the State of Qatar reduced its production of heavy crude oil whose markets were hardly hit by the overall decline in the demand for crude oil. The following Table illustrates Qatar's production and exports of crude oil over the past three years.



Table (2)
Production and Exports of Crude Oil
of The State of Qatar for the Years 1979 — 1981
(In Millions of Barrels)

Year	Production				Exports			
	Light Crude (Onshore)	Heavy Crude (Offshore)	Bunduq	Total	Onshore	Offshore	Bunduq	Total
1981	77.5	70.3	—	147.8	74.0	68.7	—	142.7
1980	84.4	88.1	—	172.5	81.3	89.0	—	170.3
1979	84.2	100.6	0.6	185.4	80.4	100.2	0.7	181.3

The Table shows that Qatari crude oil production declined from 172.5 million barrels in 1980 to 147.8 million barrels in 1981, a decrease of 14.3% for the year. This decline has however varied with the quality of oil being produced. Whereas the production of onshore light crude oil fell from 84.4 million barrels in 1980 to 77.5 million barrels in 1981 at a rate of 8.2% for the year, the production of offshore heavy crude oil was 88.1 and 70.3 million barrels in 1980 and 1981 respectively, registering a drop of 20.2% over the period. The latter rate of decline is equal to about two and a half times the rate of decline in the production of light crude oil. These figures substantiate the observation that the State of Qatar relied more heavily in 1981 on its exports of light crude oil, whose demand and prices were not heavily affected by the slump during that year in the overall demand for crude oil.

Budget of the State of Qatar in 1402

The following Table shows budget estimates of the State of Qatar for the period 1401 — 1402.



Table (3)
Budget Estimates of the State of Qatar
for the Years 1401 — 1402
(In Millions of Qatar Riyals)

Particulars	Final Estimates	Preliminary Estimates	
	1401	1401	1402
Total Revenue	20,254	20,240	18,083
Crude oil revenue	18,686	18,686	15,924
Other revenue	1,568	1,554	2,159
Total Expenditure	16,814	15,404	16,106
Recurring expenditure	11,678	9,487	10,920
First chapter	(2,891)	(2,912)	(3,830)
Second chapter	(5,938)	(4,372)	(5,081)
Third chapter	(2,849)	(2,203)	(2,009)
Capital projects			
Fourth chapter	5,136	5,917	5,186

The preceding data shows that revenues and expenditures of the State of Qatar in the year 1402 are undergoing a basic change from their trend in past years. Government revenues have begun to decline while expenditures are stabilizing. This phenomenon might not be restricted to the State of Qatar, but it may as well apply to other OPEC states. This may have resulted from the tendency of oil prices since early 1981 either to stabilize or to drift downwards as demand for crude oil contracted with economic recession engulfing all Western industrialized countries. Consequently, OPEC countries had to cut their crude oil production which cut into their earnings.

Table (3) shows that earnings of the State of Qatar in 1402 are estimated at QR 18,083 million compared with QR 20,254 million in 1401, declining by 10.7% in the interim.

Table (3) also shows that estimated expenditures of the State of Qatar for the year 1402 amount to QR 16,106 million against QR 16,814 million in 1401, contracting by 4.2% over the year. Considering the rates of worldwide inflation which affect the Qatari cost of living, it could be safely stated that estimated expenditures of the State of Qatar in 1402 are 10% lower than their 1401 level in real terms.



The Banking System During 1981

High rates of interest payable on foreign currencies in 1981 assumed an important role on the monetary conditions in the State of Qatar. Since the Qatari currency is freely convertible into foreign currencies, and as long as its value is fairly stable against the U.S. dollar. Also, because major currencies such as the U.S. dollar, the Deutsche Mark, and the Sterling Pound were paying interest rates which were considerably higher than those payable on the Qatari Riyal, investors in Qatar began to divert a greater portion of their investment funds into foreign currencies as Table (4) below demonstrates.

Table (4)
Sources and Uses of Funds for
the Commercial Banks Operating in Qatar
1979 — 1981
(In Millions of Qatar Riyals)

Particulars	1979	1980	1981
(1) Sources of Funds			
Total deposits	4,269.5	5,061.0	7,032.5
Total private deposits	3,796.2	4,469.0	6,483.6
Demand deposits	1,776.4	1,466.0	2,411.6
Time and savings deposits	1,595.4	2,020.0	1,766.0
Foreign currency deposits	424.4	983.0	2,306.0
Foreign currency deposits as a ratio of total private deposits	11.2%	22.0%	35.6%
Government deposits	473.3	592.0	548.9
Stockholders equity	385.7	562.5	571.8
Stockholders equity as a ratio of total deposits	9.0%	11.1%	8.1%
(2) Uses of Funds			
Total assets	5,475.0	6,661.1	9,031.6
Credit to private sector	3,278.5	3,693.2	4,507.3
Net foreign assets	1,523.8	1,900.2	3,656.2
Cash assets	275.9	335.0	166.1
Cash assets as a ratio of total deposits	6.5%	6.6%	2.4%



The preceding Table points to the substantial growth deposits in foreign currencies have attained in the past two years. These deposits grew from QR 424.4 million in 1979 to QR 983.0 and QR 2,306.0 million in 1980 and 1981 respectively. Accordingly, foreign currency deposits rose since 1979 by 443.3%.

Table (4) also shows that private foreign currency deposits have grown in relation to total private deposits with the commercial banks in Qatar. The ratio of private foreign currency deposits to total private deposits went up from 11.2% in 1979 to 22.0% and 35.6% in the years 1980 and 1981 respectively. The persistence of this trend in future years would result in curtailing the ability of the commercial banking system to supply the credit facilities required for the potential future growth of the Qatari economy. Fortunately, interest rates payable on major currencies have tended to decline since early 1982, which will help reduce the severity of this problem.

Table (4) indicates that deposits of the private sector have grown in 1981 at a rate much higher than its growth rate in 1980. These deposits which were QR 3,796.2 million in 1979, increased to QR 4,469.0 and QR 6,483.6 million in 1980 and 1981 respectively. Private deposits have therefore grown at an annual rate of 17.7% during 1980, whereas their rate of growth was equal to 45.1% in 1981. The faster increase in the growth rate of private deposits in 1981 could point to a higher lever of economic activity in Qatar during the year.

Table (4) also exhibits that credit facilities supplied by the banking system to the private sector have continued to expand in 1981. They rose to QR 3,693.2 and QR 4,507.3 million in 1980 and 1981 respectively compared with QR 3,278.5 million in 1979. The annual rate of increase in credit facilities amounted to 12.6% during 1980 against 22% in 1981. The faster rate of growth during 1981 of the credit facilities is consistent with the increase in government spending and its concomitant rise in economic activity.

A considerable decline in cash held during 1981 by the banks is apparent in Table (4). Cash held by the banking system declined from 6.5% and 6.6% of total deposits in 1979 and 1980 respectively to 2.4% of those deposits in 1981. This phenomenon reflects the inclination of the banks to utilize more efficiently their assets in order to earn a higher rate of return on those assets, particularly at a time when interest rates on foreign currency deposits were at a record high in 1981. This phenomenon could be also in reaction by the banks to the rising ratio of their clients deposits in foreign currencies which resulted also in reducing the banks liquidity. One should not however overlook the fact that all the banks hold large deposits in foreign currencies. Such deposits constitute a cushion to support the banks liquidity in case the need arises.



The Developing Countries and High Interest Rates Payable
on Major Currencies

It could be safely stated that high interest rates payable on the U.S. dollar was the prominent economic indicator in 1981, because interest rates had a far reaching impact on the economies of all countries both developing and industrialized.

High interest rates payable on all major currencies during 1981 resulted in recessionary economic conditions in all industrialized countries. The stagnating economies of the industrialized countries have produced lower levels of exports from the developing countries to the industrialized advanced countries. This depressed the prices of raw materials and other goods produced in the developing countries for export to the advanced industrial countries. These conditions were responsible for a considerable decline in the foreign exchange earnings of the developing countries. These countries have therefore faced acute problems in their needs to finance their current export bills, as well as the need to finance the capital projects necessary for the growth of their economies. The total debt of the non-oil producing developing countries increased from U.S. dollars 370 billion in 1980 to U.S. dollars 452 billion in 1981, whereas it stood at U.S. dollars 97 billion in 1973. The seriousness of this problem drew the attention of international financial institutions. During the 1981 joint annual meetings of the International Monetary Fund and the World Bank, the President of the World Bank recommended to increase from U. S. dollars twelve billion to nineteen billion the lending resources of the International Development Association (IDA) for the three year period starting in 1984. The IDA is an affiliate of the World Bank whose function is to channel soft loans to the developing countries.

A number of meetings of the North-South dialogue were also held during 1981 for the adoption of a more equitable formula to the developing countries in their trade relations with the industrialized countries, together with increasing the participation of the latter group in the development of the economies of the developing countries so as to reduce the huge differences between the standards of living of both groups. The last of those meetings was held in Mexico in November, 1981 and



was attended by eight countries from the industrialized countries and fourteen countries representing the developing nations. Those attempts have nonetheless failed due to the objections of the industrial world to participate actively in putting an end to the complex economic problems facing the developing nations.

It should be noted that the rising interest rates payable on major currencies have substantially increased the cost of rescheduling outstanding debt as well as raising additional loans to finance the growing deficits in the balance of payments of the developing countries. Whereas interest payments constituted 4.5% of the exports of those countries in the early 1970's, those payments have at present risen to more than 7% of those revenues.

The Industrial Countries and the High Rates of Interest Payable on Major Currencies

Recession and stagnation dominated the economies of Western Europe and the United States in 1981. GNP in Japan grew during the year due to continued strength in exports to different regions of the world. This growth occurred despite persistent weakness in internal demand within Japan.

Although rates of inflation were relatively strong in certain countries of Western Europe such as France and Italy, those rates stood at acceptable levels in the majority of the West European countries and Japan. In comparison, these rates rose in the United States in the past three years to levels which were not encountered in that country in recent memory. The American public expressed its displeasure with the Carter Administration in the 1980 Presidential elections by handing it an overwhelming defeat because of its inability to reduce the levels of inflation below their levels at the time it took office. The Cost of Living Index (CPI) rose by 5.8% in 1976, while it increased by 12.5% in 1980, the last year of the Carter's Administration term in office. The following Table shows the rates of inflation for selected industrial countries during the years 1979 — 1981.



Table (5)
Percentage Rates of Inflation for
Selected Industrial Countries
1979 — 1981

Country	Wholesale Prices			Cost of Living		
	1979	1980	1981	1979	1980	1981
U. S. A.	14.6	12.6	6.2	12.8	12.5	9.6
Japan	16.1	11.6	1.7	4.9	7.9	4.1
West Germany	6.6	7.3	8.4	5.4	5.3	6.5
France	13.5	8.1	12.6	11.5	13.6	14.1
Italy	20.3	17.1	17.9	17.7	21.4	16.7
Britain	15.6	13.4	11.2	17.3	15.3	11.9
Holland	4.9	7.7	10.4	4.6	6.7	7.2
Switzerland	6.8	4.4	6.1	5.1	4.1	6.9

The 1980 U.S. Presidential elections brought into power the Republican Party, a Party well known for its strong policies against inflation. From the time it took office, the new Administration applied stringent monetary policies in the fight against inflation which resulted in higher rates of interest payable on the U.S. dollar in 1981.

During 1980 economic conditions in Western Europe worsened producing declining GNP's accompanied by high rates of unemployment. Despite the rise in its GNP, internal demand in Japan was weak which required lower interest rates to be paid on the Japanese Yen in order to stimulate the economy. However, in an effort to protect their economies from capital outflows to the United States in pursuit of a higher rate of return in the form of interest rates payable on the U.S. dollar, and in order to counteract the potential rise in the rates of inflation within their borders which would arise from the depreciation of their currencies against the U.S. dollar, the countries of Western Europe and Japan found themselves in 1981 in the unenviable position of having to maintain or to raise the interest rates payable on their currencies. These interest rates became a further obstacle to the growth of their economies



in 1981. Consequently with the exception of Japan, GNP in those countries in that year were stagnant or declining. The following Table shows the rates of interest payable on certain currencies of the industrialized countries during the years 1978 — 1981.

Table (6)
Percentage Rates of Interest Payable on
Three Month Deposits of Selected Currencies
1978 — 1981

Currency	1978	1979	1980	1981
U.S. Dollar	8.85	12.09	14.19	16.78
Deutsche Mark	3.48	6.25	8.73	11.89
French Franc	10.26	10.74	12.21	18.16
Japanese Yen	3.50	6.08	11.30	7.73
Swiss Franc	0.86	2.25	5.63	9.29
Sterling Pound	10.80	13.65	16.34	14.32

