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Regional Economic Outlook

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Recent Macroeconomic Developments and Prospects




Highlights

The region covered by the Middle East and Central Asia Department (MCD) appears set for another year of strong growth. Real GDP should average over 6 percent in 2007, for the fifth year in a row. All country groupings within the region—oil exporters, emerging markets, and low-income countries—have been performing well, with growth especially strong in the Caucasus and Central Asia (CCA).[1] Continued high oil and non-oil commodity prices, robust global growth, a favorable international financial environment, and sound policies in many MCD countries are underpinning this performance.

But inflation is rising, fueled by rapid demand growth and strong foreign inflows. With monetary policy largely accommodative in many countries, inflation is expected to average nearly 9 percent in 2007 compared with 7½ percent last year. The uptick is particularly notable in some oil-exporting countries. In these countries, higher inflation is beginning to translate into more appreciated real exchange rates, as would be expected in response to increased oil prices.

The region's external and fiscal surpluses remain very high, but are expected to decline in 2007. For oil exporters, only one-fourth of the projected fall in the external current account surplus in 2007 is due to lower oil prices. The remainder is accounted for by the impact of higher spending, with imports rising strongly as major public and private infrastructure projects get under way and spending on social programs increases. Oil export revenues are projected to decline slightly to $570 billion in 2007, based on an average oil price of $61 a barrel, down from $64 last year. Naturally, the revenue projections are highly sensitive to oil prices, with a $5 a barrel decline estimated to reduce the region's annual exports by $45 billion, and fiscal receipts by $35 billion.

The performance of the MCD region's capital markets has been mixed. In the Gulf Cooperation Council (GCC) countries,[2] stock market corrections that started in early 2006 have continued, but outflows from these markets have benefited some other regional markets, especially those in the Maghreb countries.[3] With ample liquidity and increasing demand for investment project financing, there has been a jump in the issuance of Islamic bonds (*sukuk*), particularly in the GCC.

There are risks to the generally very positive outlook, but the region is becoming increasingly resilient to potential shocks. Potentially adverse global developments include the possibility of slower world growth, perhaps triggered by a sharper-than-expected slowdown in the United States, or a sustained rise in financial market volatility. At the regional level, escalating conflicts are a perennial threat. The International Monetary Fund (IMF) is actively engaged in several post-conflict countries in the region, including Lebanon, for which the Fund is providing financing through the recently approved Emergency Post-Conflict Assistance. Sharply lower oil prices would also hit regional growth, although the balance of risks in the oil market appears to be on the upside. Strong macroeconomic policies, increases in international reserves, and declining debt in recent years will help the region withstand all but the most severe shocks.

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[1]CCA countries comprise Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.

[2]GCC countries comprise Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

[3]Maghreb countries comprise Algeria, Libya, Mauritania, Morocco, and Tunisia.

The key policy challenge for the region is to sustain or even accelerate growth, in order to make significant inroads into reducing poverty and unemployment. Strong growth has not yet generated sufficient jobs for the rapidly expanding labor force, and poverty rates have not yet declined much, even in the rapidly growing low-income countries.

Oil-exporting countries' policies are on the right track. Even with moderately lower oil prices, programs to boost social and infrastructure investment can still be financed comfortably. Investments to promote economic diversification will also be important, particularly in countries that face an imminent decline in oil production, as well as in countries benefiting from buoyant metal prices that may not be sustained. A stable macroeconomic setting and reforms to improve the business environment and strengthen the financial sector are key to attracting more private investment to the noncommodity sectors.

Fiscal consolidation remains a priority in *emerging market countries*. Fiscal deficits are still high in several of these countries, preventing debt from declining sufficiently. Further efforts to broaden tax bases, strengthen tax administration, and reduce subsidies would help limit deficits while creating room for well-targeted programs to reduce poverty.

Managing the macroeconomic impact of large-scale foreign-financed investments is an important challenge for *low-income countries*. With improved policies and declining debt, these countries are attracting substantial financing for infrastructure projects, particularly in the energy and transportation sectors. While the projects have the potential to boost growth and reduce poverty substantially, they will only be effective if accompanied by essential structural reforms and a cautious debt management strategy that prevents the buildup of excessive debt.

The *CCA countries* need to be vigilant against inflationary pressures, fueled by very strong demand growth and large inflows of capital, remittances, and, in some cases, oil revenues. Tighter monetary policy and more nominal exchange rate appreciation would help prevent these pressures from becoming entrenched, while faster structural reforms to boost productivity would help maintain international competitiveness.

All countries in the region would benefit from more developed financial institutions and deeper markets, and increased integration with neighboring countries. The need to efficiently utilize the region's large savings has made this especially important. Encouraging progress is being made in several countries, including in the GCC and the Maghreb. ■

The May 2007 *Regional Economic Outlook: Middle East and Central Asia* (REO), covering countries in the Middle East and Central Asia Department (MCD) of the International Monetary Fund (IMF), provides a broad overview of recent economic developments and prospects, and policy issues for 2007. To facilitate the analysis, the MCD countries are divided into three groups: oil exporters, low-income countries (LICs), and emerging markets.[4] Countries are grouped based on the share of oil in total exports, per capita income, and access to international capital markets.

Background

The MCD region is large and diverse. In 2006, the region had a combined GDP of $1.8 trillion, of which one-third was accounted for by oil. The region's total population is about 650 million (10 percent of the world's population), comprising over 150 ethnic groups.[5] Per capita income ranged from $300 (Afghanistan) to $63,000 (Qatar).

The region is well endowed with natural resources. It holds nearly three-fourths of the world's proven oil reserves, includes half of the top 20 oil-producing countries, and accounts for one-third of world oil production. The region also accounts for one-fifth of the world's gas production—only Russia has higher natural gas reserves than Iran, Qatar, Saudi Arabia, or the U.A.E. Algeria is the largest gas producer among MCD countries, and the second-largest supplier of natural gas to Europe, after Russia. Dubai Aluminum is the single largest aluminum smelter site in the world. Uzbekistan is the fifth-largest producer and the second-largest exporter of cotton in the world. Countries in the CCA are also rich in copper (Armenia and Georgia), gold (Armenia, Kazakhstan, the Kyrgyz Republic, and Uzbekistan), and uranium (Armenia and Uzbekistan).

[4]*Oil exporters* comprise Algeria, Azerbaijan, Bahrain, Iran, Iraq, Kazakhstan, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Syria, Turkmenistan, and the United Arab Emirates (U.A.E.). *Low-income countries (LICs)* comprise Afghanistan, Armenia, Djibouti, Georgia, the Kyrgyz Republic, Mauritania, Sudan, Tajikistan, Uzbekistan, and Yemen. *Emerging markets* are Egypt, Jordan, Lebanon, Morocco, Pakistan, and Tunisia.

[5]In this REO, this diversity is highlighted with a series of photographs depicting the "Faces of the Region."

Strong oil and other commodity prices have boosted regional liquidity and led to a large accumulation of international reserves. At end-2006, reserve assets amounted to $625 billion,[6] compared with $1.1 trillion in China and $285 billion in Russia. As a result of an improved policy environment, strong fundamentals, and increased opportunities for investment, MCD countries are benefiting from substantial capital inflows, both from within and outside the region. These, together with abundant domestic resources, are being used to finance large investment projects both in the development of natural resources and in infrastructure to facilitate economic diversification. Over the next five years ending 2010, the region is expected to spend about $700–900 billion on investment projects. ■

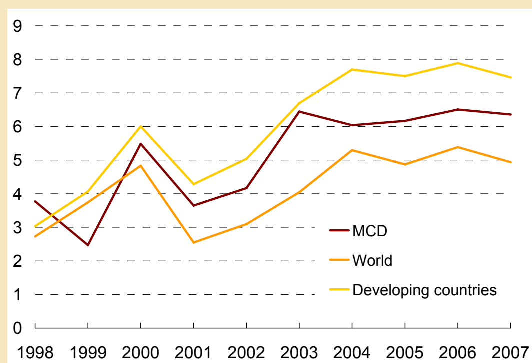
Recent Economic Developments

The MCD region grew strongly in 2006, outpacing global growth for the sixth year in a row. Real GDP expanded by 6½ percent, well above the average growth rate of just under 4 percent registered during 1998–2002 (Figure 1).[7] Continued high oil and non-oil commodity prices, robust global growth, a favorable international financial environment, and appropriate policies in many MCD countries underpinned this performance. This sustained growth allowed average per capita income to reach a level nearly 75 percent higher than in 2002.

Figure 1. Global real GDP growth

MCD growth continues to outpace global growth.

(average annual change; in percent)



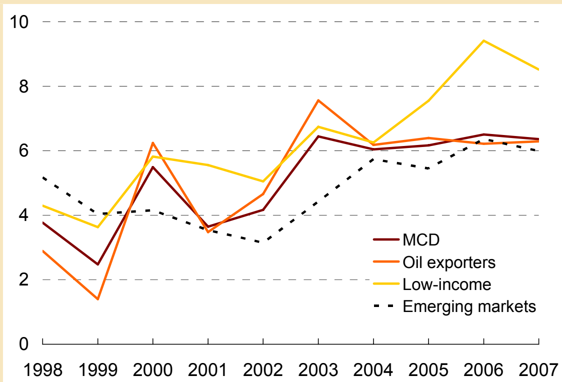
Sources: Data provided by authorities; and IMF staff estimates and projections.

[6]Total gross official reserves of the MCD region include only the amounts held by central banks and do not include foreign assets of governments held in special funds.

[7]Because of the large differences in the size of the individual country economies, weighted averages are dominated by the indicators of seven large economies, five of which are oil exporters. In the following analysis, both MCD-wide and country group averages are provided.

Figure 2. Real GDP growth in MCD
Low-income countries are growing fastest.

(average annual change; in percent)



Sources: Data provided by authorities; and IMF staff estimates and projections.

Afghan man
Photo by Marcel Mettelsiefen/dpa/Corbis

Armenian man
Photo by Peter Turnley/Corbis

Among MCD countries, growth in 2006 accelerated in LICs and emerging markets, and remained at about the rate of the previous years in oil-exporting economies (Figure 2).

- *LICs* recorded strong growth of 9½ percent in 2006, which compares favorably with an average of 8 percent for all developing countries. Growth was well above the LICs' average in Mauritania and Sudan, which benefited from higher oil production and strong performances in agriculture and fishing, and in Armenia from expanding construction activity and trade.
- *Emerging market countries* grew at about 6½ percent, up from 5½ percent in 2005. Growth accelerated in Egypt (across oil and non-oil sectors), Morocco, and Tunisia (driven by the upturn in agriculture and buoyant activity in the construction and services sectors), and remained strong in Jordan and Pakistan. In Lebanon, a nascent recovery early in the year was halted by the conflict with Israel, leading in the end to no growth in GDP in 2006.
- *Oil-exporting countries* grew by about 6 percent in 2006. Non-oil GDP growth was the main engine in Bahrain, Kazakhstan, Kuwait, and the U.A.E., chiefly from construction activity, and in Saudi Arabia from manufacturing and financial services. Expansion in the oil sector was the driving force in Azerbaijan and Qatar. Oil GDP contracted in Algeria, Saudi Arabia, and Syria.

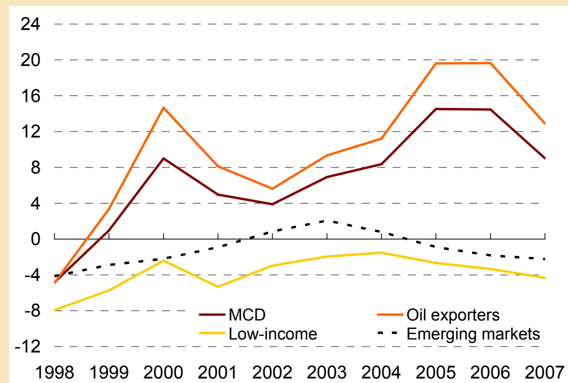
In terms of geographical groupings, the *CCA* once again registered the highest growth. Output in these countries expanded by an average of over 13 percent in 2006, the second consecutive year of double-digit growth (Box 1). High oil and other commodity prices,[8] increased exports to Russia and China, and vibrant domestic demand (partly financed by remittances) contributed to this performance. The average growth rate of Middle East and North Africa (MENA) countries was slightly over 5½ percent, and within this group the Maghreb economies (Algeria, Libya, Mauritania, Morocco, and Tunisia) grew by close to 5 percent.

Despite the strong growth record in recent years, unemployment remains high in most of the region, largely reflecting a rapidly expanding labor force. Based on available data for about half of the MCD countries, unemployment in the region declined only moderately, from an average of over 11 percent during 1998–2002 to 10 percent in 2006.[9] Among the countries for which data are available, the most significant unemployment reductions were in Armenia, Kazakhstan, and the Maghreb countries; in the latter, however, the unemployment rate is still in double digits.

The MCD region as a whole continues to generate high savings, which are reflected in large external surpluses. MCD countries' current account surplus was 14½ percent of GDP ($245 billion) in 2006, the same as in 2005 (Figure 3). The cumulative surplus since end-2002 amounts to $620 billion. The high and rising level of the surplus in recent years comes from soaring oil prices, which averaged $64 a barrel in 2006 compared with $53 a barrel the year before. Large surpluses in oil-exporting countries contrasted with deficits in most emerging markets and low-income countries, although in some oil-importing countries, the adverse impact of higher oil prices on the current account was partly offset by increases in non-oil commodity prices, especially metals (Figure 4), and remittances. Remittances as a

Figure 3. External current account balance
Increased spending is reducing current account surpluses of oil exporters.

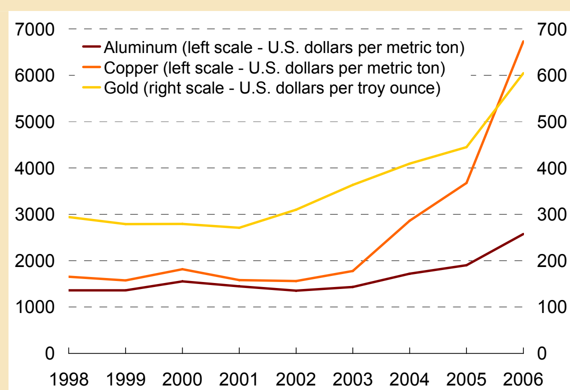
(in percent of GDP)



Sources: Data provided by authorities; and IMF staff estimates and projections.

Figure 4. Non-oil commodity prices
Metal prices have risen sharply.

(in percent of GDP)



Source: IMF, *International Financial Statistics.*

[8]In particular, prices of aluminum (Tajikistan), copper (Armenia and Georgia), cotton (Tajikistan and Uzbekistan), gold (Armenia, Kazakhstan, the Kyrgyz Republic, and Uzbekistan), and ferrous and scrap metals (Georgia).

[9]Data on unemployment are available for only 17 of the 32 MCD countries (6 oil-exporting countries, 6 LICs, and 5 emerging market countries).

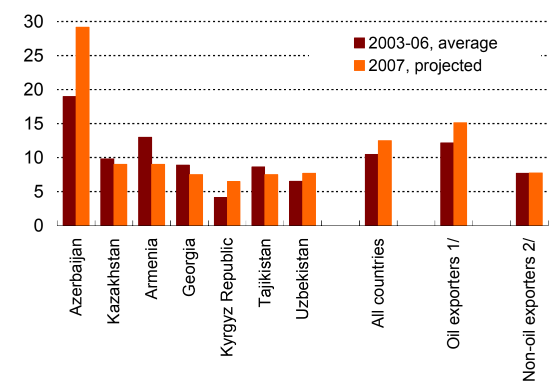
Box 1. What Is Behind the Growth Boom in the Caucasus and Central Asia?

The countries of the Caucasus and Central Asia have seen rapid real GDP growth and moderate inflation in recent years. However, strong domestic demand and rapid foreign exchange inflows have led to increasing inflationary pressures, and will pose significant policy challenges going forward.

Real GDP growth has been extremely impressive in the Caucasus and Central Asia region (Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan), averaging about 11 percent a year over the 2003–06 period (Figure 1.1). These were the highest growth rates among transition economies and compared very favorably with the fastest growing economies in Asia and the rest of the developing world. The two oil exporters, Azerbaijan and Kazakhstan, benefiting from record-breaking oil prices, registered average oil and non-oil output growth of 19 percent and 10 percent, respectively, over this period. Non-oil exporters also fared well, with average GDP growth of about 8 percent.

Figure 1.1. Real GDP growth

(in percent)

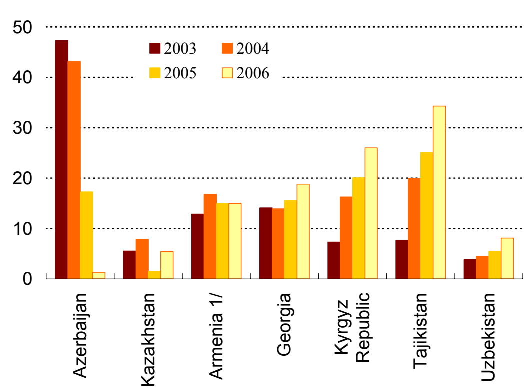


Source: IMF staff estimates and projections.
[1]Azerbaijan and Kazakhstan.
[2]Armenia, Georgia, the Kyrgyz Republic, Tajikistan, and Uzbekistan.

All countries have benefited from a global commodity boom and supportive regional conditions, as reflected in strong external demand, large inflows of remittances, and foreign direct investment (FDI) (Figure 1.2). Oil- and gas-sector–led growth has stimulated activity in construction and services in Kazakhstan, and transportation in Azerbaijan. Among non-oil exporters, the remarkable growth performance has been largely achieved on the back of buoyant domestic economic activity in the construction, transportation, agriculture, communication, and service sectors.

Figure 1.2. Remittances and FDI inflows

(in percent of GDP)



Source: IMF staff estimates
[1]Includes compensation for employees.

While the rapid pace of economic growth initially represented a rebound in the aftermath of the 1998 Russian crisis, since then it has reflected improved macroeconomic management and implementation of essential reforms. Inflation fell significantly in most countries since 2000, in part owing to greater fiscal and monetary discipline (Figure 1.3). However, inflationary pressures have reemerged in the past two years, largely because of strong domestic demand and large-scale foreign exchange inflows.

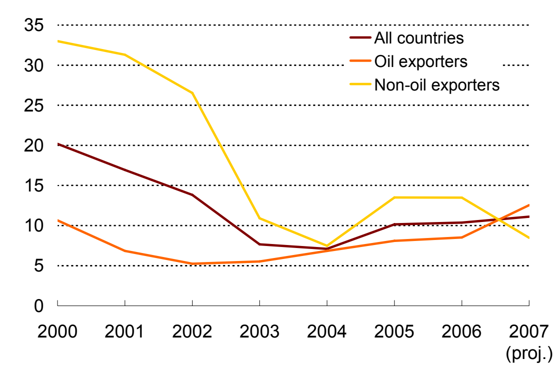
Box 1. What Is Behind the Growth Boom in the Caucasus and Central Asia? *(concluded)*

Debt-to-GDP ratios have also declined in all countries. In some cases, this was due to fiscal consolidation, or repayment with privatization receipts and earmarked oil revenues; in others, debt relief from bilateral creditors and/or under the Multilateral Debt Relief Initiative (MDRI) played a vital role. Foreign exchange reserves have been built up and now provide some cushion against possible external shocks.

Structural reforms have played an important role in sustaining growth, albeit to varying degrees across countries. Several countries (Armenia, Georgia, and Kazakhstan) have embarked on important reforms to strengthen governance and the business environment. Overall, countries have strengthened their public finance institutions, enhanced regulatory environments, and improved financial sector supervision. Credit to the private sector has been growing rapidly in most countries, although from a low base. Rapid economic growth has led to rising per capita incomes, improvements in human resource development indicators, and some reduction in poverty, even though the overall levels of poverty remain high.

Figure 1.3. CPI inflation

(in percent)

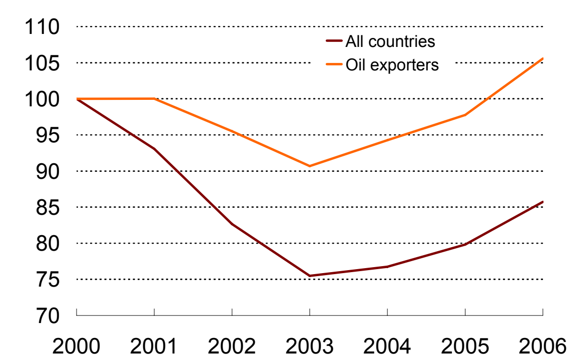


Source: IMF staff estimates and projections.

Going forward, sizable challenges remain in sustaining the recent growth performance and reducing poverty. For most countries, attaining further declines in poverty rates will require better-targeted social assistance and improvements in infrastructure and human capital development. A medium- to long-term macroeconomic challenge for all countries is to achieve economic diversification while dealing with pressures stemming from the real appreciation of their currencies (Figure 1.4). As most countries face increasing inflationary pressures, they will need to address this challenge through fiscal and/or monetary tightening, including greater exchange rate flexibility, and by implementing appropriate productivity-enhancing structural and institutional reforms. In particular, these should include reforms to further develop financial sectors and improve investment climates, the two areas in which these countries currently lag behind other transition economies. Some countries also need to continue to liberalize trade. The Central Asian Regional Economic Cooperation (CAREC) program is a valuable platform for promoting cooperation in the region in the areas of trade policy and trade facilitation, as well as in the energy and transport sectors.

Figure 1.4. Real effective exchange rates

(2000 = 100)



Sources: Data provided by authorities; and IMF staff estimates.

Afghan girl wearing a traditional costume

Photo by Rahmat Gal/epa/Corbis

Kazakh girl

Photo by Nevada Wier/Corbis

percent of GDP were particularly high in Jordan, Lebanon, and Morocco among emerging market countries, and in Armenia, Georgia, the Kyrgyz Republic, and Tajikistan among low-income countries.

- *Oil-exporting countries'* current account surplus was 19½ percent of GDP ($255 billion) in 2006. This is the same percentage as in 2005, despite the fact that the average oil price rose by more than $10 a barrel. This reflects substantial increases in spending for investment and consumer products in many oil-producing countries, which resulted in import growth of 25 percent, outpacing the 21 percent rise in exports. Kazakhstan, Qatar, and Saudi Arabia experienced import growth in excess of 25 percent.
- Current account positions weakened in 2006 in half of the *emerging market countries*. Overall, the current account deficit in this group of countries was about 2 percent of GDP. The surplus declined in Egypt and deficits increased in Pakistan and Tunisia. Jordan and Lebanon continued to register very large deficits, although the deficits moderated as export growth picked up. Morocco's current account surplus increased as the widening trade deficit was more than offset by strong tourism receipts and remittances. Import growth was above average in Egypt and Pakistan, reflecting strong domestic demand, while exports grew strongly in Egypt and Morocco.
- The current account deficit of *LICs* widened to almost 3½ percent of GDP. While Yemen and Uzbekistan recorded growing surpluses, Djibouti, Georgia, the Kyrgyz Republic, and Sudan had relatively large and growing deficits due to high import growth associated with investment projects. Export performance was strong in Sudan and Yemen because of rising oil

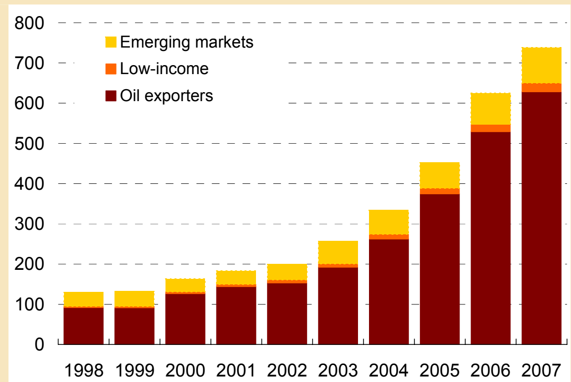
receipts, in Georgia and Mauritania because of higher base metal receipts, and in Uzbekistan because of a pickup in both commodity and noncommodity exports.

- Gross official reserves of MCD countries have more than tripled since end-2002, reaching $625 billion at end-2006. These increases mainly reflect sharp improvements in current account positions in oil exporters, and higher foreign investment and other capital inflows in LICs and emerging market countries (Figure 5). Reserves have increased in all country groupings. In oil exporters, they have more than tripled since end-2002. In LICs, they have doubled, mainly because of increases in Uzbekistan and Yemen, owing to their strengthened current account positions, and in Sudan because of large foreign direct investment inflows. In emerging market countries, capital inflows, official borrowing, and privatization receipts more than offset weak external current account positions and allowed for the continued accumulation of reserves, albeit at a slower pace.

Government savings increased further in 2006, with the fiscal surplus of MCD countries rising to over 5 percent of GDP compared with an average deficit of close to 2 percent of GDP during 1998–2002 (Figure 6). Supported by soaring oil prices, oil exporters' combined fiscal surplus climbed to about 12 percent of GDP in 2006. LICs had lower deficits compared with their averages for 1998–2002, while in emerging markets, deficits were slightly higher. Ratios of government debt to GDP continued to decline, as a result of fiscal consolidation in some countries and the use of privatization receipts and earmarked oil revenues in others (Figure 7).

Figure 5. Gross official reserves
Growth of reserves has continued.

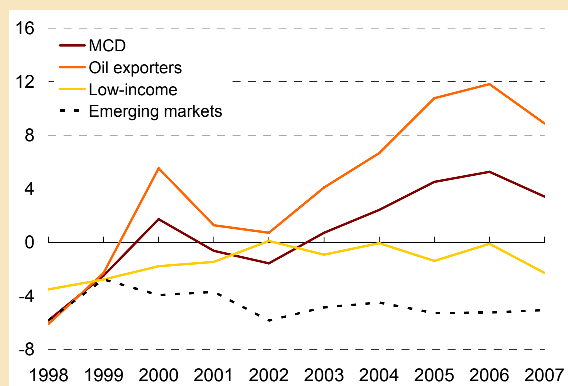
(in billions of U.S. dollars)



Sources: Data provided by authorities; and IMF staff estimates and projections.

Figure 6. Central government fiscal balance
Fiscal balances improved in 2006.

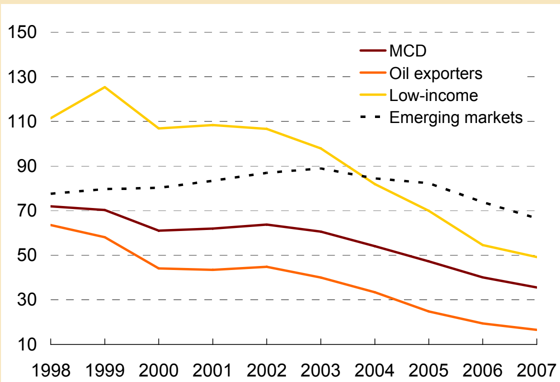
(in percent of GDP)



Sources: Data provided by authorities; and IMF staff estimates and projections.

Figure 7. Total government debt
Debt continues to decline.

(in percent of GDP)



Sources: Data provided by authorities; and IMF staff estimates and projections.

- Many *oil exporters* have stepped up their spending of oil revenue. In 2006, the cumulative increase in the overall fiscal surplus since 2003—that is, the savings from the increase in oil revenue—was about 70 percent of the increase in fiscal oil receipts, down from 75 percent the year before. The average non-oil fiscal deficit was 36 percent of non-oil GDP in 2006, up from an average of 27 percent in 1998–2002, with particularly sharp increases during the past years in Azerbaijan and Kuwait, as these countries accelerated spending on oil and gas development and infrastructure.

- Spending in *LICs*, on average, was stable in 2006. There were increases in spending-to-GDP ratios in Afghanistan and Georgia associated with large investment projects, and in Uzbekistan owing to large increases in salaries, pensions, and social spending. But these were offset by declines elsewhere, notably in Armenia and Mauritania.

- In the *emerging market countries,* spending as a percent of GDP rose. Reconstruction expenditures were high in Lebanon following the conflict with Israel, and in Pakistan in the aftermath of the October 2005 earthquake. In Morocco, however, expenditures declined significantly because of the successfully implemented voluntary retirement program for civil servants and the nonrenewal of the exceptional expenditures incurred in 2005.

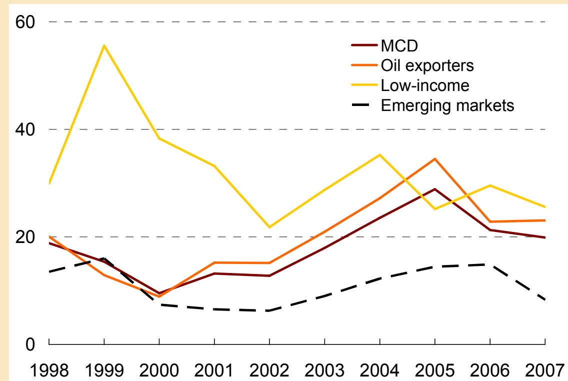
Government revenue–to-GDP ratios continued to increase in all country groups. In oil producers, this reflected increases in oil revenues as well as non-oil revenues; the ratio of non-oil revenue to non-oil GDP continued its upward trend. In LICs, the increases in Mauritania and Yemen were due to higher oil revenues, in Georgia to improved tax administration, and in the Kyrgyz Republic and Uzbekistan to tax system reforms. Among emerging countries, Jordan's improved tax administration aided the strong revenue performance.

Adjustment in domestic petroleum product prices accelerated in all country groups in 2006. In LICs and emerging market countries, domestic fuel price increases in response to world oil price developments exceeded those in the United States. Price increases were particularly sharp in Jordan, Mauritania, Sudan, and Tajikistan. In 2006, the ratio of the domestic price of regular gasoline in MCD countries to that in the United States was, on average, just over 80 percent. This ratio remained unchanged from 2005 at about 50 percent for oil-exporting countries, but increased by about 10 percentage points to over 100 percent in LICs and to 110 percent in emerging market countries.

Monetary policy has remained largely accommodative, although there was some tightening in 2006 in several countries where inflation picked up. Monetary growth on average exceeded 20 percent each year since 2004 and amounted to 25 percent in 2006. The counterparts to the rapid monetary growth are a marked rise in net foreign assets—reflecting pegged or heavily managed exchange rates in an environment of large foreign exchange inflows with limited scope for sterilization[13]—as well as strong credit growth (Figure 8).

Figure 9. Credit to the private sector
Credit growth eased.

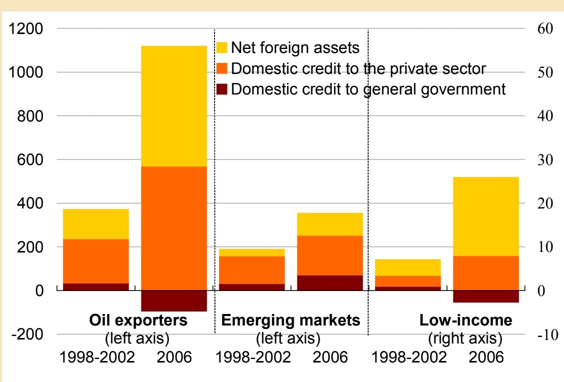
(annual percent change)



Sources: Data provided by authorities; and IMF staff estimates and projections.

Figure 8. Counterparts to money supply
Sharp monetary expansion fueled by net foreign assets.

(in billions of U.S. dollars)



Source: Data provided by authorities.

- Credit to the private sector continued to grow, but at a slower pace (Figure 9). Increases were particularly large in Azerbaijan, Kazakhstan, and Qatar among oil exporters; and in Georgia, the Kyrgyz Republic, and Sudan among LICs. In emerging markets, private credit growth rose in Lebanon, remained strong in Morocco, and slowed in Jordan because of policy tightening. In some of these countries, especially in the LICs, the increase is from a low base and partly reflects financial deepening. At end-2006, the average ratio of private sector credit to GDP in the region was 46 percent, ranging from 7 percent in Yemen to 100 percent in Jordan.

[13]In some countries where most oil receipts are invested overseas through special funds (e.g., the Abu Dhabi Investment Authority), these funds effectively act as a sterilization channel, and consequently, oil export receipts have limited influence on monetary developments.

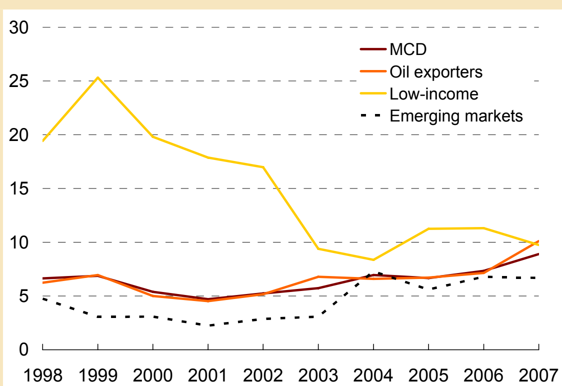
Tunisian man

Photo by Philippe Lissac/Godong/Corbis

Figure 10. Consumer prices

Inflationary pressures are increasing in oil exporters.

(average annual change; in percent)



Sources: Data provided by authorities; and IMF staff estimates and projections.

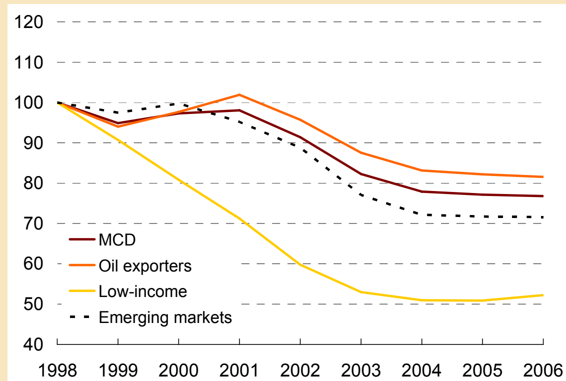
- Inflation picked up in 2006 and averaged 7½ percent, compared with 6½ percent in 2005 (Figure 10). Inflation in oil-exporting countries increased to over 7 percent, owing to increased domestic demand pressures and, in some countries, the depreciation of the dollar (to which their currencies are pegged) against currencies of major trading partners. Increases in inflation have been lower in countries with very open product and factor markets, such as Kuwait and Saudi Arabia. Among emerging market countries, inflation rose in Egypt due to a mixture of demand pressures and increases in administered prices (most importantly fuel prices), and in Jordan driven by food and fuel prices, while in Pakistan average inflation dropped modestly in response to the tightening of monetary policy. Inflation in Tunisia rose sharply owing to increases in oil and basic commodity prices, but is still lower than the average for the emerging market countries. In LICs, inflation remained at 11 percent on average, with rates in Uzbekistan and Yemen still well above the average. Strong domestic demand fueled by external inflows and accommodative policies led to inflation spikes in several CCA countries.

- Despite higher oil prices, oil exporters' real exchange rates have generally appreciated only moderately since 2004, while those of oil importers have appreciated more rapidly (Figures 11 and 12). For many oil-exporting countries, particularly in the GCC, the lack of substantial real appreciation, so far, in response to higher oil prices has reflected several factors, including their initial very high saving rates from higher oil revenues, which contained the injection of liquidity into the economy, their very open trade and flexible labor markets, and the limited pass-through of higher fuel costs to domestic prices (Box 2). However, reflecting relatively high inflation, there has been real appreciation in several of these countries over the past two years, notably in Iran, Qatar, and the U.A.E. Among some oil-importing countries, the real exchange rate appreciated as inflation picked up in response to the very large pass-through of higher oil prices to domestic prices, or because of strong remittances and capital inflows that offset the impact of increased oil import bills. Among LICs and emerging markets, real appreciation was largest in Armenia, Egypt, Pakistan, Sudan, Uzbekistan, and Yemen.

MCD equity markets had mixed performances in 2006. In the GCC countries, the corrections that started early in 2006 continued, with markets declining from 13 percent (Kuwait) to 53 percent (Saudi Arabia); Oman (up 15 percent) and Bahrain (unchanged) were exceptions. The Shua'a Capital Arab Composite Index fell by 38 percent, with losses in GCC markets partly offset by gains in Egypt (11 percent), Morocco (58 percent), and Tunisia (40 percent) (Figure 13).[11]

Figure 11. Nominal effective exchange rates
Nominal effective exchange rates were broadly stable.

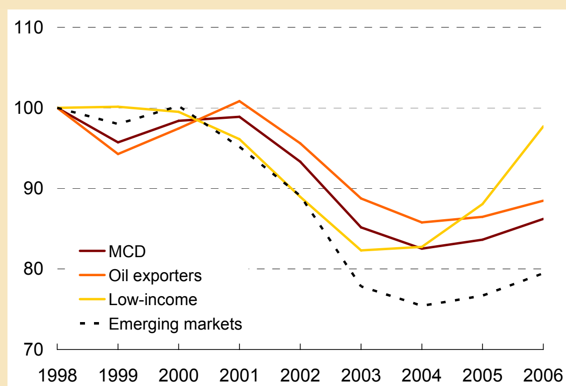
(Index 1998 = 100; increase indicates appreciation)



Sources: IMF Information Notice System; and IMF staff estimates.

Figure 12. Real effective exchange rates
Real effective exchange rates have started to appreciate.

(Index 1998 = 100; increase indicates appreciation)



Sources: IMF Information Notice System; and IMF staff estimates.

[11]The Shua'a index includes the GCC countries, Egypt, Jordan, Lebanon, Morocco, Tunisia, and West Bank and Gaza.

Box 2. The Paradox of GCC Real Exchange Rates

The translation of the positive terms-of-trade shocks to more appreciated real effective exchange rates in GCC countries has so far been gradual.

During 2003–06, oil prices increased by 120 percent, resulting in a large positive terms-of-trade shock for oil exporters. The cumulative current account surplus of GCC oil exporters exceeded $475 billion during this period. As a result, the real effective exchange rates of GCC countries would have been expected to appreciate, and with pegged exchange rate regimes, the appreciation would have taken place through higher inflation. Instead, the real effective exchange rates of these countries generally depreciated during 2003–04, although at declining rates, and only started to appreciate very modestly in 2005–06. The factors listed below could contribute to explaining the observed depreciation or the lower-than-expected appreciation.

Low inflationary pressures. Inflation in GCC countries averaged about 2 percent during 2003–05, but increased in 2006. Very open trade systems have allowed imports to meet higher domestic demand while the ease of importing labor has accommodated the increased demand for nontradables without the need to significantly change relative prices. Furthermore, oil revenues largely accrue to the governments and the fiscal policy response to the increase in oil revenue has been gradual, with a large part of the increase spent on imports of investment goods. In addition, investments in infrastructure and human capital may have contributed to increased output in the nontradable sectors. These factors could have also helped limit inflationary pressures.

Movements in nominal effective exchange rates. Currencies of most of the GCC countries are pegged to the U.S. dollar. With the dollar depreciating against the major reserve currencies (in which GCC trade takes place), the nominal effective exchange rates of these countries have depreciated by 12½ percent (on a cumulative basis) since 2002 compared with a cumulative inflation of 10 percent, thereby offsetting the impact from increasing inflation.

Administered prices. In GCC countries, increases in prices of petroleum products have been much lower than in non-oil-exporting countries. In 2003–06, average domestic petroleum prices in oil-exporting countries were less than one-half of those in the United States, and in non-oil-exporting countries in MCD. During the same period, the average pass-through was about 12 percent of the increase in international prices. The low cost of products and the limited pass-through have helped contain pressures on consumer price inflation and delayed the appreciation of real effective exchange rates. Moreover, some other prices have been either administratively fixed or limited from increasing at market-demand rates (e.g., rents).

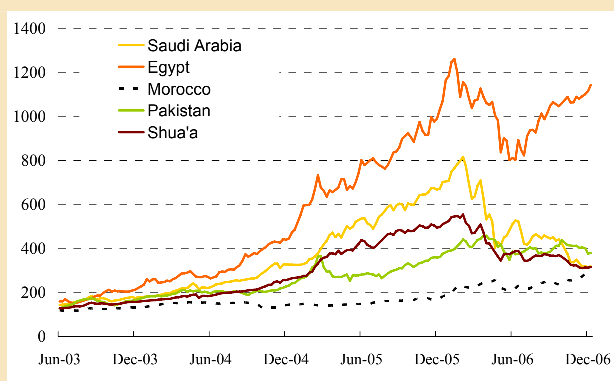
Calculating real effective exchange rates. The real effective exchange rate calculation is based on consumer price inflation (CPI). The real exchange rate can also be calculated from prices of tradable and nontradable goods or relative labor costs. Data on either alternative are sparse, but there is evidence that prices of nontradables (retail and wholesale services, rents, and real estate) have increased relative to non-oil tradables. Furthermore, labor markets are tightening, suggesting that unit labor costs have been increasing given the continuing high growth in non-oil sectors. In addition, deficiencies in compilation of price statistics could underestimate actual inflation. Thus, on all accounts, the real exchange rate may have appreciated more than indicated by the CPI-based measure used here.

Moroccan boy
Photo by Olivier Martel/Corbis

The increases in these markets partly reflected capital inflows from the GCC countries, after the initial corrections early in 2006. Declines occurred in Lebanon (10 percent), mainly owing to the conflict with Israel, and in Jordan (33 percent), as a correction to the steep increase in 2005. In general, the impact of the decline has, so far, been limited owing to effective prudential regulations in most countries, limited direct bank exposure to stock markets, high capital asset ratios, and investor confidence supported by rating agencies' strong assessments. With ample liquidity and increasing demand for financing investment projects, especially in the GCC, there was a sharp increase in the issuance of Islamic bonds (Box 3). ■

Figure 13. Selected stock market indices
Stock market performance was mixed in 2006.

(December 2002 = 100)



Source: Bloomberg.

Box 3. Islamic Bonds

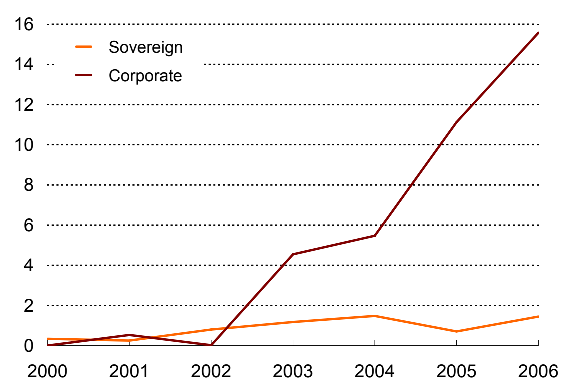
Islamic bonds (sukuk) have grown dramatically in recent years and are now a major capital market product. This development reflects the widening of the regional market, the increasing demand for financing, particularly in the GCC countries for infrastructural development, and the desire of many regional and international investors to diversify their portfolios.

Sukuk are similar to asset-backed bonds, but, instead of paying a predetermined annual interest rate, payments to investors over the life of the *sukuk* are derived from the profits or returns (dividends, rents, etc.) of the underlying physical assets. *Sukuk* give investors a share of an asset along with the cash flows that derive from that ownership. While a bond represents pure debt on the issuer, *sukuk* represent an ownership stake in an existing asset or project. In this respect, *sukuk* are participation certificates against a single asset or a pool of assets. The core contract used in the securitization process to create *sukuk* is a Mudaraba (trust financing) and the majority of *sukuk* issued to date are based on spot sales (*salam*), leasing (*ijarah*) or deferred payment and/or deferred delivery sale contracts. More recently, Musharakah (joint venture) contracts have also been used.

The market for *sukuk* is presently growing at a rate of about 45 percent a year, and was worth an estimated $41 billion at end-2006 from less than $8 billion at end-2003.[1] The composition and destination of these bonds have changed significantly: while about $30 billion are accounted for by Malaysia, the bulk of recent placements have been in the Gulf region. Moreover, corporate *sukuk* have outpaced sovereign *sukuk*. The annual issuance of sovereign *sukuk* since 2002 has been below $2 billion (see Figure 3.1). By contrast, issues of corporate *sukuk* increased from about $1 billion in 2001 to about $16 billion by end-2006. About $34 billion in *sukuk* placements have been announced recently, mainly for infrastructure development in the Gulf region. Some of the recent major *sukuk* issues include those by the Dubai Islamic Bank ($11 billion), Abu Dhabi Islamic Bank ($5 billion), Aldar Properties ($3.5 billion), Dubai Ports ($3.5 billion—the largest convertible *sukuk* so far), the Nakheel Group ($2.5 billion), and Aramco and ConocoPhillips ($1 billion).

Figure 3.1. Islamic bonds: annual issuance

(in billions of U.S. dollars)



Source: IMF staff estimates.

Over the next two to three years, GCC countries are reported to be targeting more than $50 billion in infrastructure financing. Given the nature of the underlying demand and preference for Shariah-compliant assets, the new *sukuk* placements will typically be structured using the Musharakah, with the borrower putting in about one-third of the equity and investors supplying the rest through *sukuk* purchases. There is also a growing number of *sukuk* issuers in the United States, Europe, and Asia, including sovereign borrowers such as the German regional government of Saxony-Anhalt and the Japan Bank of International Cooperation (JBIC), multilateral agencies such as the World Bank, and corporations including Nestlé, oil companies, and Standard Chartered Bank. This growing demand for *sukuk* reflects not only the liquidity of the Gulf market and the ever more attractive underlying borrowing terms, but also the emergence of convertible *sukuk*, effective early 2006, which could be converted into shares of the company or into cash. Further, growth of the *sukuk* market will benefit from the development of a secondary market. The introduction of new instruments, such as the Dow Jones Citicorp Sukuk Index, could help facilitate secondary market trading.

[1]Based on public placements. Total *sukuk* placements could be higher given that many deals are structured as private placements and are not included in these estimates.

Jordanian Bedouin boy wearing a Kaffiyeh

Photo by Richard T. Nowitz/Corbis

Palestinian girl

Photo by Ahmed Jadallah/Reuters/Corbis

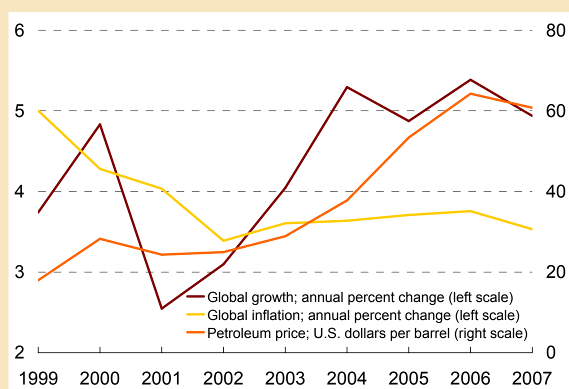
Economic Outlook

World economic outlook[12]

Global growth is expected to moderate in 2007. Following the robust growth of 5.4 percent in 2006, global growth is projected at 4.9 percent in 2007 (Figure 14), with the most pronounced slowdown occurring in advanced economies. This pace would be more in line with potential output growth, which will help to limit inflation. Inflationary pressures started easing in mid-2006, helped by falling oil prices and some monetary policy tightening, and are expected to remain well contained. Consequently, global inflation is projected to decline from 3.8 percent in 2006 to 3.5 percent in 2007.

Figure 14. Global outlook

Growth, inflation, and oil prices are projected to ease.



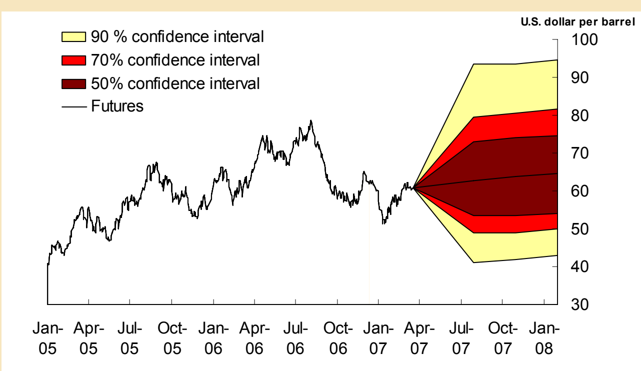
Source: IMF, *World Economic Outlook* (WEO).

[12]Based on the April 2007 *World Economic Outlook*.

Oil prices have come down from their peaks, but still remain high. After briefly reaching a record of $76 a barrel in August 2006, the average petroleum spot price (APSP)[13] declined thereafter and fluctuated in the range of $50–65 a barrel during the first quarter of 2007. Substantial further declines are unlikely if the present global expansion continues and OPEC implements production cuts in response to price weaknesses. Although spare capacity remains quite tight, it has increased somewhat and oil inventories have risen, implying an enhanced ability to withstand temporary shocks to oil demand and supply. The APSP is projected to average $61 a barrel in 2007, slightly below the 2006 average of $64. However, oil futures/options markets see price risk as clearly skewed upward, with a 1 in 6 chance that Brent crude prices could rise above $88 a barrel by the end of 2007 (Figure 15). Non-oil commodity prices rose further in 2006 reflecting continued strong demand and unplanned disruptions to supply. Looking forward, base metal prices (especially copper and zinc) are expected to weaken over the medium term as new capacity comes online, although higher production costs are likely to keep prices above historical averages.

Figure 15. Brent crude oil prices

Prices are more likely to rise than fall.



Source: IMF, *World Economic Outlook* (WEO). Projections based on futures markets.

The global financial environment continues to be favorable, despite a bout of financial volatility in February–March 2007. Expectations of continued solid economic growth and fading inflationary concerns have contributed to buoyant global financial market conditions. Equity markets across the world are still high, despite the recent turbulence. Long-term interest rates have stayed low, although policy rates have increased. Spreads on corporate and emerging market sovereign debt have narrowed in most markets, driven in part by ample market liquidity and until recently low volatility. Capital flows to emerging markets remain high and investor demand for local currency sovereign debt, equities, and corporate debt has grown as emerging market fundamentals have improved and sovereign external debt has become increasingly scarce.

Even though the global economy looks set for a soft landing, risks still remain tilted to the downside. Important risks include (i) a sharper slowdown in the U.S. economy, if the housing sector continues to deteriorate; (ii) higher inflationary pressures as output gaps continue to close; (iii) a rebound in oil prices in the event of a supply shock, which would also have inflationary consequences; and (iv) a sustained increase in financial market volatility, prompting a retrenchment from risky assets, and the possibility of an extended reversal of "carry-trade" financial flows from Japan. The probability of a highly disruptive and disorderly unwinding of global imbalances is now considered low. On the upside, there is the possibility that domestic demand in Western Europe and emerging Asia could exceed expectations, and contribute to higher global growth.■

[13]The APSP is a simple average of the spot prices for West Texas Intermediate, Dubai Fateh, and U.K.-dated Brent.

Uzbek man in traditional garb
Photo by Kazuyoshi Nomachi/Corbis

Uzbek woman
Photo by Nevada Wier/Corbis

Outlook for the region

Growth prospects for the MCD region remain very good. Based on the global scenario described in the previous section, the region's real GDP is projected to grow by about 6½ percent in 2007.

- With rising oil and gas output, increased investment projects in non-oil sectors, and the associated income and wealth effects driving domestic demand, overall GDP growth in *oil-exporting countries* is expected to remain high at just over 6 percent in 2007, despite lower projections for oil prices. In Kazakhstan, Turkmenistan, and the U.A.E., strong growth is projected in non-oil GDP, while double-digit oil GDP growth is likely to be the main driver of the robust overall performance in Azerbaijan and Qatar.

- *LICs* are expected to continue growing at well above the MCD and developing country averages. Particularly strong performances are projected for Afghanistan (from a rebound in agriculture and sustained activity in construction and services), Armenia (from continued buoyancy in the construction and services sectors and a recovery in exports), Georgia (from strong growth in services and manufacturing), and Sudan (from increased oil production). Uzbekistan should also perform well owing to strong external demand.

- *Emerging market countries* are likely to continue growing vigorously in 2007. This group's performance will be dominated by growth in Egypt (mostly driven by non-oil sectors) and Pakistan (with strong growth in manufacturing and in services), while growth in Lebanon will be subdued, reflecting the difficult post-conflict environment and the ongoing political tensions (Box 4). On the other hand, recent rapid growth in Morocco will moderate with a return to a normal agriculture season.

MCD set for strong growth in 2007, but inflation is rising.

- Growth in several post-conflict countries is projected to take off in 2007. With increased institutional capacity, stronger policies, and provided that security improves, Afghanistan, Iraq, and Sudan are all expected to grow at double-digit rates. The IMF has provided these countries with financial assistance, economic policy advice, and capacity-building technical assistance (Box 5).

Box 4. Lebanon—Recovery from the Conflict

The July 2006 conflict with Israel imposed a heavy human and economic toll on Lebanon. The authorities' program accommodates relief and reconstruction spending while also setting the stage for fiscal adjustment and reform over the medium term, with a view to addressing Lebanon's large debt overhang and financial vulnerabilities.

The summer 2006 conflict with Israel and the air, sea, and land blockade that followed inflicted a heavy human and economic toll on Lebanon. By the time of the ceasefire, approximately 1,200 Lebanese had died, about one-fourth of the population was displaced, and a large number of professionals had left the country. The government estimates the damage to infrastructure at $2 billion (9 percent of 2006 GDP), mostly to housing. Shortly after the conflict, donors pledged $1.7 billion for immediate relief and recovery. Most of these pledges are expected to be disbursed by end-2007, but owing to implementation capacity constraints, some conflict-related spending will spill over into 2008.

The conflict and the ensuing domestic political tensions dashed hopes of a strong economic recovery, after an already weak 2005. The war and the blockade paralyzed activity and foiled what was to be a record tourist season. The rise of internal political tensions depressed confidence and economic activity further. As a result, there was no real GDP growth in 2006. This represents a loss of about $1.3 billion in GDP, relative to a pre-war estimated growth of about 6 percent. At the same time, inflation accelerated owing to supply shortages during the conflict, reaching 7 percent year-on-year in December.

Government revenue shortfalls and unforeseen relief and recovery spending needs caused a sizable deterioration in public finances, with the overall budget deficit (excluding grants) estimated to have reached 14 percent of GDP in 2006, up from 8½ percent in 2005. Donor grants equivalent to some 3 percent of GDP covered the additional spending related to recovery and reconstruction, but government debt rose further to over $40 billion (179 percent of GDP) by end-2006. Financial markets weathered the conflict well, and all of the deposit outflows suffered during the war (about $3 billion) were recouped by year-end. However, deposit dollarization ratcheted up again (to around 75 percent) and Eurobond spreads have declined only slightly since the end of the war, standing at around 350 basis points (bps) as of mid-February compared with 175 bps just before the conflict.

To address the country's significant financial problems, the government presented an ambitious five-year economic adjustment and reform program to the donor community in Paris on January 25, 2007 (Paris III). The donor conference generated $7.6 billion in pledges, largely in the form of loans. Most of the pledges were for project financing, but a part was also specifically targeted to debt reduction. In this context, the government also requested Emergency Post-Conflict Assistance (EPCA) from the IMF, which the IMF's Executive Board approved in April 2007.[1]

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[1]Information on the EPCA can be found at www.imf.org/external/np/exr/facts/conflict.htm.

Box 5. The Fund's Role in Post-Conflict Countries in the Middle East and Central Asia

In addition to Lebanon (see Box 4), the IMF is actively engaged with several other countries in the region that are experiencing or emerging from conflicts.

Islamic Republic of Afghanistan. Following the collapse of the Taliban regime in December 2001, the Fund has assisted the authorities in reconstructing key economic institutions and implementing macroeconomic policies. Technical assistance has focused on rebuilding the payments system, introducing a new currency, modernizing the central bank, managing expenditures, and mobilizing revenues. In March 2004, Afghanistan embarked on a Staff-Monitored Program with the IMF, followed in June 2006 by a financial arrangement under the Poverty Reduction and Growth Facility with a focus on capacity building, macroeconomic stability, and poverty reduction.

Iraq. After the fall of Saddam Hussein in March 2003, the IMF began providing the new Iraqi authorities with advice and technical assistance on monetary and fiscal policies, and on a wide range of structural reforms. In September 2004, the IMF supported Iraq's 2005 economic program with Emergency Post-Conflict Assistance. Paris Club creditors then agreed to reduce Iraq's debt by 80 percent (in three stages), informed by debt sustainability analysis undertaken by Fund staff. In July 2005, the first IMF Article IV consultation with Iraq in a quarter century was concluded. In December 2005, Iraq's first ever Stand-By Arrangement was approved (unlocking the second stage of Paris Club debt relief).

Somalia. The IMF's role has, so far, been limited to monitoring developments at arm's length. With the formation of the Transitional Federal Government in 2004, some contacts were established mainly through the World Bank and UNDP, with staff providing comments on needs assessments and various other reports and issues that are in the IMF's domain. Depending on progress in the peace process and provided that an agreement on the clearance of arrears can be reached, normal relations with Somalia may resume, including eligibility to use IMF resources.

Sudan. The IMF has provided substantial technical assistance and policy advice to Sudan in recent years, mainly in the context of successive Staff-Monitored Programs. The focus has been on reducing inflation and restoring fiscal and external sector sustainability. IMF staff provided economic advice in the context of the 2005 peace agreement, in the areas of central banking, oil revenue sharing, and the introduction of a new currency. The IMF has also contributed to a needs assessment exercise and periodically advises donors on Sudan's macroeconomic developments and the implementation of the authorities' economic policies.

West Bank and Gaza. Since 1993, following the Oslo Accord, the IMF has been monitoring economic developments and providing policy advice—especially in the fiscal and financial areas—and technical assistance to support reforms and capacity building. The deteriorating political situation in 2006 has constrained the IMF's engagement to providing technical assistance mainly to the Palestine Monetary Authority, while staff continues to share its analyses of the economic situation with the international donor community. With the formation of the new unity government in March 2007, the IMF will renew its work on the public finances and other areas.

External and fiscal surpluses remain very high, but are expected to decline in 2007.

Inflation is expected to rise further in oil-exporting countries, remain at about the same level in emerging market countries, and ease in LICs. In oil-exporting countries with fixed exchange rates, real exchange rate adjustment to higher oil prices is expected to continue in 2007 through higher inflation.[14] Countries with the most flexible product and factor markets are likely to continue to see lower rates of inflation. Among oil-exporting countries with adjustable exchange rates, double-digit inflation is projected in Azerbaijan, Iran, and Iraq. Among low-income and emerging market countries, inflation should ease somewhat in Georgia, Pakistan, and Uzbekistan in response to monetary tightening. However, inflation is expected to increase in Sudan because of expansionary policies and fuel price increases, and in Tajikistan due to recent adjustments in utility prices and continued robust domestic demand.

The MCD region's external current account surplus is expected to be much lower in 2007 because of higher imports and decreased oil prices. Gross official reserves are still projected to rise in all country groupings, although at a slower pace than in 2006. Foreign investment inflows and remittances are expected to more than offset the projected larger current account deficits in both low-income and emerging market countries.

- Based on the latest oil price projections, the current account surplus of *oil-exporting countries* should decline to 13 percent of GDP in 2007 ($180 billion) from 20 percent in 2006. While softer oil prices account for about one-fourth of this, the remainder largely reflects rising imports for major planned public and private sector investment projects. The cumulative current account surplus is projected to reach $810 billion for 2003–07, with GCC countries accounting for 75 percent of that amount. However, these estimates are naturally very sensitive to oil price movements during the course of 2007 (Box 6).

- In *emerging market countries,* the current account deficit is projected to remain at about 2 percent of GDP, with continued large deficits in Jordan and Lebanon. The current account deficit in Tunisia is expected to decline owing to lower oil prices, while the surplus in Morocco is set to fall as a result of rising imports associated with the ongoing recovery in nonagricultural sectors.

- In *LICs,* current account deficits are expected to deteriorate, mainly because of increased imports for foreign-financed construction projects in Djibouti (the Port), Georgia (oil and gas transit operations), Tajikistan (highway and hydropower projects), and Yemen (LNG (liquefied natural gas) processing facilities).

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[14]Following the exchange rate regime classification in the IMF's *Annual Report on Exchange Arrangements and Exchange Restrictions* (AREAER, 2006), countries are classified into *fixed regimes* (Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Syria, Turkmenistan, the U.A.E., and Uzbekistan) and *adjustable regimes* (Afghanistan, Algeria, Armenia, Azerbaijan, Georgia, Iran, Kazakhstan, the Kyrgyz Republic, Sudan, Tajikistan, Tunisia, and Yemen). Adjustable regimes comprise crawling pegs, managed floating with no predetermined path for the exchange rate, and independent floating. In the cases of Azerbaijan and Uzbekistan, the de facto regimes were reclassified after the publication of the 2006 AREAER, and the current regimes have been reflected above.

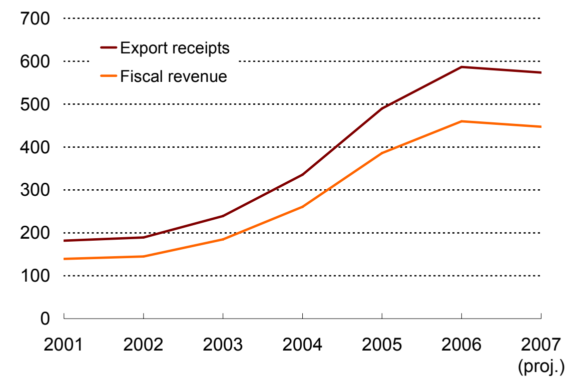
Box 6. Oil Income in the Middle East and Central Asia—An Update

The softening of world oil prices since mid-2006, together with stepped-up spending of oil revenue, implies a significant narrowing of Middle East and Central Asian oil-exporting countries' external and fiscal surpluses. Nevertheless, with oil income remaining high, programs to boost social and infrastructure investment can still be financed comfortably.

The region's income from its oil and gas resources will decline from the record levels seen last year, but remain much higher than in the 1990s and early this decade. With oil prices expected—as of April 2007—to average under $61 a barrel this year, compared with over $64 a barrel in 2006, oil and gas exports will likely amount to about $570 billion (Figure 6.1). Although this represents a small decline from the $585 billion in earnings last year, it will be about three times the level seen in 2002. Similarly, on the fiscal side, government revenue from oil and gas will ease slightly in 2007, but remain strong in relation to previous years.

Figure 6.1. Oil income

(in billions of U.S. dollars)

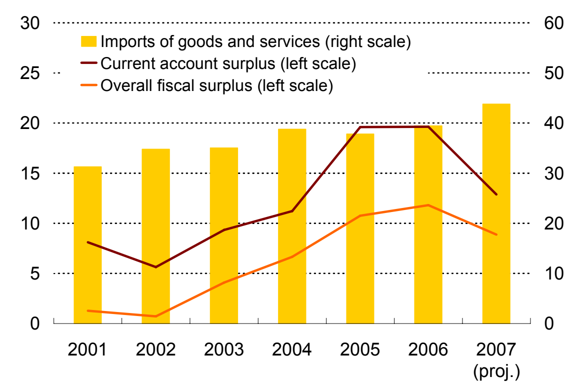


Sources: Data provided by authorities; and IMF staff estimates and projections.

With spending accelerating as social and infrastructure investment plans are implemented, the region's current account and fiscal surpluses will narrow markedly. Government spending is expected to increase further in 2007 and will contribute to a significant pickup of imports relative to GDP. Combined with the moderate decline in oil income, this will translate into lower external and fiscal surpluses—roughly in the range of 2004–05 levels in U.S. dollar terms and in relation to regional GDP (Figure 6.2). Lower oil prices account for about one quarter of the adjustment in oil exporters' current account surplus this year, with the remainder accounted for by the impact of higher spending.

Figure 6.2. Surpluses and imports

(in percent of GDP)



Sources: Data provided by authorities; and IMF staff estimates and projections.

The envisaged spending plans imply continued prudent management of oil revenue in the region as a whole. Saving of the additional oil and gas income will remain substantial, but will ease significantly from the rates seen in recent years. During 2003–06, the region saved about 60 percent of its additional oil and gas export receipts (relative to the 2002 level, on a cumulative basis) and almost 70 percent of additional fiscal revenue from oil and gas. In 2007, these proportions are projected to ease to about 55 percent and 65 percent, respectively. Although oil earning projections would clearly be affected by movements in oil prices—a $5 a barrel decline would reduce the region's export and fiscal receipts by an estimated $45 billion and $35 billion, respectively—the region's external and fiscal positions would remain very comfortable, especially in comparison with the period before oil prices climbed. Thus, Middle East and Central Asian oil-exporting countries, in aggregate terms, will be able to undertake their envisaged investment plans while continuing to set aside sizable resources for the future.

Local trader in the U.A.E.

Photo by Suzanne Brookens/Corbis

The MCD region's fiscal surplus is also expected to decline in 2007. This reflects the current lower oil price projections and the fact that oil-exporting countries have started to undertake major investment projects. Fiscal surpluses in oil-exporting countries are projected to drop to 9 percent of GDP, from 12 percent in 2006; while revenues are expected to decrease somewhat, expenditures are projected to increase substantially. The LICs' fiscal deficits are projected to increase, mainly owing to declining oil revenues in Mauritania and Yemen, and surging foreign-financed expenditures in Tajikistan. Although the deficits of emerging market economies are projected, on average, to remain at 2006 levels, fiscal consolidation is expected to continue in Egypt and Jordan. Lebanon's already large fiscal deficit will deteriorate further because of increased spending for rehabilitation and reconstruction.

There are risks to the positive outlook, but the region is becoming resilient.

All country groupings are projected to reduce debt further. By end-2007, ratios of government debt to GDP of oil-exporting countries are likely to decline to about one-third of their 1998–2002 levels; for LICs to a half; and for emerging markets to four-fifths. These declines reflect efforts to reduce debt through prudent fiscal policies, or with funding from privatization receipts and earmarked oil revenues, and in some LICs through debt relief from bilateral creditors and under the Multilateral Debt Relief Initiative (MDRI). Lebanon's debt ratio, which increased to about 180 percent of GDP in 2006 after the conflict, is projected to decline somewhat in 2007, but will still be very high. Among MCD countries, only Tajikistan's debt-to-GDP ratio is projected to increase significantly, because of large investments financed by concessional loans from China.

Although the outlook for the MCD region is very positive, there are several downside risks reflecting both regional and global factors. Most importantly, the conflicts in the region and the potential for a worsening security situation, if not resolved, could affect the region's overall economic performance significantly. The whole region could also suffer if global growth slowed. In addition, lower oil prices could limit the growth prospects among oil exporters; worsening international financial market conditions and rising interest rates could reduce capital flows to the region; and further declines in regional asset markets could pose a risk to financial stability in some countries. Consistently prudent economic policies and the recent buildup of foreign exchange reserves will certainly help the region absorb shocks of this sort. ■

Kyrgyz girls
Photo by Keren Su/Corbis

Policy Issues

The policy challenge for the MCD region is to sustain, and if possible accelerate, the current growth momentum, while fostering macroeconomic and financial stability and reducing unemployment and poverty. The region is in its fifth consecutive year of annual growth of over 6 percent, with improved performance in all country groupings underpinned by strong global growth, supportive global financial conditions, high oil and other commodity prices, and generally good macroeconomic policies. However, this impressive growth performance has yet to generate sufficient jobs for the rapidly growing labor force. Moreover, poverty has not declined significantly, even in LICs, where the average growth rate has been consistently well above that of the rest of the MCD region. Improving the distribution of income is essential to reduce poverty, as well as to ensure broad support for reform and to help sustain the growth momentum.

Policy challenges include managing oil revenues, capital inflows, and foreign-financed investments.

In *oil-exporting countries,* sound oil revenue management continues to be the main challenge. Spending on social and infrastructure investments has picked up in most countries. Saving out of the additional oil income will ease significantly from the rates seen in recent years. These are welcome developments from the perspective of oil exporters as well as the global economy. Investments to increase oil production and refining capacity will alleviate tightness in the supply of refined petroleum products, and investments in both oil and non-oil sectors will result in increased imports, thereby contributing to the orderly resolution of global imbalances. However, conditions and policy frameworks vary among oil exporters, and in a few cases supply bottlenecks and some signs of overheating have emerged. Thus, the authorities need to find the right balance between the speed of implementation of their ambitious mega projects and the absorptive capacity of the economy, to ensure that high growth can be sustained in a stable macroeconomic environment.

Boy in Dierba Island, Tunisia

Photo by Blaine Harrington, III/Corbis

Tribal woman in Somalia

Photo by Peter Turnley/Corbis

Diversification is a key challenge for oil exporters as well as non-oil commodity exporters. Although for most countries this is more of a medium-term issue, for some countries, policy initiatives in this direction are more urgently needed because of prospective declines in oil production. Vulnerability to fluctuating commodity prices is also of concern for countries with a limited cushion to absorb shocks. In these countries, a greater role for private investment in non-oil, noncommodity sectors will be key to balancing growth. In this context, a stable macroeconomic environment remains an important precondition. In addition, a number of other reforms could play an important role in making investment in these sectors more attractive. These include improving the business environment, lifting price controls, developing financial sectors and improving access to finance, further opening of key activities to private and foreign participation, and enhancing overall legal and regulatory frameworks.

In *emerging market countries,* fiscal consolidation will be key to sustaining a stable macroeconomic environment. Fiscal deficits in several emerging economies have remained high, preventing debt levels from declining sufficiently. In the future, a greater emphasis will need to be placed on fiscal reforms.

- In countries where public sector revenues as a share of GDP are relatively low (Lebanon and Pakistan), efforts will be needed to broaden the tax base, reduce exemptions, and improve tax administration. Similar efforts are also needed in countries where revenues are high owing to elevated tax rates that are stifling growth in the economy, and in cases, such as the Maghreb countries, where revenues are projected to decline over the medium term owing to trade agreements.
- On the expenditure side, efforts to reduce subsidies need to continue. Such reforms, including reductions in implicit subsidies on petroleum products, would also create room for increased spending on well-targeted social programs, which would be directly beneficial for the poor.
- Several emerging market countries have been experiencing large capital inflows, fueled by ample regional liquidity and partly associated with privatization programs (Egypt, Jordan, Pakistan, and Tunisia). In these cases, strengthening of fiscal positions together with a tightening of monetary policy will be needed to contain liquidity growth and inflationary pressures, especially if exchange rate stability is to be maintained.

In *low-income countries,* managing the macroeconomic impact of large-scale foreign-financed investments will be an important challenge. Continued progress in cementing macroeconomic stability, reducing debt (including through debt relief in some countries), and improving policies in general are attracting increased financing for LICs. This provides opportunities to increase much-needed investments in infrastructure and human capital, reduce unemployment, and enhance prospects for higher potential output. However, the governments will have to carefully balance these benefits against the need to prevent a deterioration in debt ratios and to ensure debt sustainability in the medium term. To mitigate such increased risks, the authorities must adopt a well-defined debt management strategy. Moreover, spending should be consistent with absorptive capacity and should be accompanied by improved financial management to avoid waste.

In the *CCA*, inflationary pressures are high and increasing. Reflecting high commodity prices, capital inflows, increased remittances, and the strength of domestic demand, inflation in the CCA has on average remained well above the MCD average. Authorities need to prevent inflationary pressures from becoming entrenched by tightening monetary policy and allowing greater nominal appreciation of their exchange rates. Nominal appreciation will take some pressure off indirect monetary policy instruments and enable the needed adjustment in real exchange rates in response to permanently higher foreign exchange inflows. In parallel, fiscal policy will have to support the tight monetary stance until inflation is brought under control. Structural reforms to boost productivity will also need to be accelerated to strengthen the competitiveness of the economy.

All MCD countries would benefit from further broadening and deepening of the region's financial markets.

All MCD countries would benefit from further broadening and deepening of the region's financial markets. Despite the progress made in recent years, there is a need to strengthen financial sectors in light of the important role they play in allocating the large savings of the region, the increased integration of financial markets, and the importance of developed and sound financial systems for achieving high and sustained economic growth. Many MCD countries are experiencing large foreign exchange inflows, which have boosted credit and money growth, challenged the central banks' ability to sterilize excess liquidity, and financed investments in equities and real estate. These developments underscore the need to (i) create adequate indirect monetary policy instruments and developed secondary markets to enhance monetary policy effectiveness; (ii) strengthen banking system soundness; (iii) closely monitor financial sector balance sheets, in particular with respect to exchange rate and credit risks; (iv) upgrade regulatory and supervisory frameworks in financial markets to international standards, and increase supervisory coordination at the regional level; and (v) increase the depth and liquidity as well as improve the transparency of capital markets to reduce asset market volatility. It is encouraging that determined efforts in these areas are under way, including in several GCC countries, Jordan, Kazakhstan, and the Maghreb countries (Box 7). ■

Inhabitant of Dahane in Azerbaijan

Photo by Roshanak B./Corbis Sygma

Box 7. Financial Sector Reforms and Financial Integration in Maghreb Countries

Maghreb countries have been deepening their financial systems and working toward increased financial integration.

A conference on Financial Sector Reforms and Prospects for Financial Integration in the Maghreb countries—Algeria, Libya, Mauritania, Morocco, and Tunisia—took place in Morocco in December 2006. The conference covered both financial sector reforms and perspectives for regional financial integration, as these are mutually reinforcing processes.

Financial sector reforms and remaining challenges

Over the last decade, all five Maghreb countries have implemented reforms to modernize their financial sectors. As a result, financial systems have developed substantially, albeit at different speeds and to varying extents. To consolidate the progress made, reform efforts should continue particularly in the following areas:

- *Strengthening banking system soundness* by reducing banks' nonperforming loan portfolios, ensuring adequate loan classification and provisioning, and adhering fully to internationally accepted prudential rules.
- *Enhancing competition in the banking systems* by ensuring a level playing field for all banks, including through the restructuring of public banks and privatization, if warranted.
- *Deepening financial markets* through strengthening the regulation and supervision of securities markets, broadening the investor base, and improving transparency.
- *Strengthening financial sector oversight* by allowing greater autonomy to supervisory agencies and providing them with more resources to hire, train, and retain qualified staff.
- *Bringing financial infrastructure in line with international best practice* by establishing commercial courts, strengthening corporate governance, and fostering a sound credit culture.

Perspectives for regional financial integration

Useful lessons can be distilled from similar endeavors in other regions of the world. These experiences, particularly those of the European Union, suggest adopting a gradual approach and underscore the importance of sound macroeconomic frameworks and healthy domestic financial systems for successful financial integration.

The timeline for financial integration involves short- and medium-term actions.

- Key short-term measures could include the elimination of financial barriers to intra-Maghreb trade by allowing Maghreb banks to set up cross-border branches or subsidiaries, and continuing dialogues between regional central banks to promote closer cooperation. The ongoing payment systems reform is a good opportunity to progress toward harmonization. Measures to stimulate the regional integration of domestic equity markets—through greater information and technology sharing and encouraging cross-listings and cross-border investment—would also strengthen regional financial linkages.
- Over the medium term, efforts should focus on harmonizing market infrastructure—including regulatory and supervisory frameworks, financial information, and financial contracts—and capital account liberalization, with particular attention given to the appropriate sequencing of requisite reforms.

Statistical Appendix

Photo on previous page:
Young women in Islamkot, Pakistan

By Annie Belt/Corbis

Data and Conventions

The IMF's Middle East and Central Asia Department (MCD) countries comprise Afghanistan, Algeria, Armenia, Azerbaijan, Bahrain, Djibouti, Egypt, Georgia, Iran, Iraq, Jordan, Kazakhstan, Kuwait, the Kyrgyz Republic, Lebanon, Libya, Mauritania, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tajikistan, Tunisia, Turkmenistan, the United Arab Emirates (U.A.E.), Uzbekistan, West Bank and Gaza, and Yemen.

The following statistical appendix tables contain data for 30 of the MCD countries. Somalia and West Bank and Gaza are not included because of limited data availability. Afghanistan, Iraq, and Turkmenistan are included in the tables, but excluded from the country grouping averages in all the tables except Tables 2, 4, 13, 14, 15, and 18. Data revisions reflect changes in methodology and/or revisions provided by the authorities.

Tables and charts reflect data available as of end-March 2007.

... indicates that data are not available or not applicable.

The data relate to the calendar year, with the following exceptions: (i) for Qatar, fiscal data are on a fiscal year (April/March) basis, and (ii) for Afghanistan, Egypt, Iran, and Pakistan, all macroeconomic accounts data are on a fiscal year basis. For Egypt and Pakistan, the data for each year (e.g., 2004) refer to the fiscal year (July/June) ending in June of that year (i.e., June 2004). For Afghanistan and Iran, data for each year refer to the fiscal year (March 21/March 20) starting in March of that year, except Table 5, which contains data on a calendar year basis.

In Tables 3, 9, and 10, "oil" includes gas, which is also an important resource in several countries.

REO aggregates are constructed using a variety of weights as appropriate to the series.

Country group composites for exchange rates and the growth rates of monetary aggregates (Tables 6 and 17) are weighted by GDP converted to U.S. dollars at market exchange rates (both GDP and exchange rates are averaged over the preceding three years) as a share of MCD or group GDP.

Composites for other data relating to the domestic economy (Tables 1, 3, 5, and 7–12) whether growth rates or ratios, are weighted by GDP valued at purchasing power parities (PPPs) as a share of total MCD or group GDP.

Composites relating to the external economy (Tables 16 and 19) are sums of individual country data after conversion to U.S. dollars at the average market exchange rates in the years indicated for balance of payments data and at end-of-year market exchange rates for debt denominated in U.S. dollars.

Tables 2, 4, 13, 14, 15, and 18 are sums of the individual country data.

CCA (the Caucasus and Central Asia) comprises Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.

MENA (Middle East and North Africa) refers to the following countries covered by the MCD: Algeria, Bahrain, Djibouti, Egypt, Iran, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, the U.A.E., and Yemen.

GCC (Gulf Cooperation Council) comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the U.A.E.

Maghreb comprises Algeria, Libya, Mauritania, Morocco, and Tunisia. ■

Table 1. Real GDP Growth

(Annual change; in percent)

	Average 1998-2002	2003	2004	2005	2006	Proj. 2007
Middle East and Central Asia	**3.9**	**6.4**	**6.0**	**6.2**	**6.5**	**6.4**
Oil exporters	**3.7**	**7.6**	**6.2**	**6.4**	**6.2**	**6.3**
Algeria	3.6	6.9	5.2	5.3	2.7	4.5
Azerbaijan	7.7	10.4	10.2	24.3	31.0	29.2
Bahrain	4.8	7.2	5.6	7.8	7.7	6.9
Iran	4.2	7.2	5.1	4.4	5.3	5.0
Iraq	...	...	46.5	3.7	3.0	10.4
Kazakhstan	6.8	9.3	9.6	9.7	10.6	9.0
Kuwait	8.2	16.5	10.5	10.0	5.0	3.5
Libya	2.2	5.9	5.0	6.3	5.6	7.9
Oman	3.6	2.0	5.4	5.8	5.9	6.0
Qatar	7.1	3.5	20.8	6.1	8.8	8.0
Saudi Arabia	1.5	7.7	5.3	6.6	4.6	4.8
Syria	2.4	1.0	2.4	2.9	3.0	3.3
Turkmenistan	15.6	17.1	14.7	9.0	9.0	10.0
United Arab Emirates	4.0	11.9	9.7	8.5	9.7	8.2
Low-income countries	**4.9**	**6.7**	**6.3**	**7.5**	**9.4**	**8.6**
Afghanistan	28.6	15.7	8.0	14.0	8.0	12.2
Armenia	7.9	14.0	10.5	14.0	13.4	9.0
Djibouti	1.6	3.2	3.0	3.2	4.5	5.1
Georgia	3.6	11.1	5.9	9.6	9.0	9.4
Kyrgyz Republic	3.3	7.0	7.0	-0.2	2.7	6.5
Mauritania	3.1	5.6	5.2	5.4	11.7	1.9
Sudan	5.5	7.1	5.1	8.6	12.2	11.1
Tajikistan	7.3	10.2	10.6	6.7	7.0	7.5
Uzbekistan	4.1	4.2	7.7	7.0	7.2	7.7
Yemen	4.3	3.1	2.6	3.7	3.8	2.6
Emerging markets	**4.0**	**4.4**	**5.7**	**5.5**	**6.4**	**6.0**
Egypt	5.1	3.2	4.1	4.5	6.8	6.7
Jordan	4.3	4.2	8.4	7.2	6.0	6.0
Lebanon	2.3	4.1	7.0	1.0	0.0	1.0
Morocco	3.6	5.5	4.2	1.7	7.3	3.5
Pakistan	3.1	4.9	7.4	8.0	6.2	6.5
Tunisia	4.4	5.6	6.0	4.0	5.3	6.0
Memorandum						
CCA	6.0	8.6	9.1	11.1	13.1	12.6
MENA	3.8	6.5	5.5	5.3	5.7	5.5
Of which						
GCC	3.0	8.7	7.2	7.2	6.0	5.6
Maghreb	3.5	6.2	5.1	4.3	4.8	4.8

Sources: Data provided by country authorities; and IMF staff estimates and projections.

Table 2. Nominal Gross Domestic Product

(In billions of U.S. dollars)

	Average 1998-2002	2003	2004	2005	2006	Proj. 2007
Middle East and Central Asia	**841.4**	**1023.9**	**1230.8**	**1486.3**	**1761.3**	**1928.2**
Oil exporters	**551.2**	**704.6**	**874.6**	**1088.1**	**1296.0**	**1397.5**
Algeria	52.8	68.0	85.0	102.4	114.3	116.2
Azerbaijan	5.2	7.3	8.7	12.6	19.8	28.7
Bahrain	7.4	9.7	11.2	13.4	16.1	17.5
Iran	106.2	134.0	161.3	188.5	212.5	225.9
Iraq	...	...	25.8	33.6	50.4	63.5
Kazakhstan	20.7	30.9	43.2	57.1	77.2	91.6
Kuwait	33.4	47.8	59.3	80.8	96.1	95.4
Libya	30.1	24.0	30.5	41.7	50.3	60.8
Oman	18.0	21.8	24.7	30.8	36.0	38.3
Qatar	15.5	23.5	31.7	42.5	52.7	57.3
Saudi Arabia	173.6	214.9	250.7	309.9	348.6	354.9
Syria	19.3	22.7	24.7	27.4	31.5	35.0
Turkmenistan	5.5	11.4	14.2	17.2	21.8	26.2
United Arab Emirates	63.6	88.6	103.8	130.3	168.5	186.2
Low-income countries	**44.9**	**56.5**	**68.4**	**82.7**	**104.0**	**124.4**
Afghanistan	4.1	4.6	6.0	7.3	8.4	9.9
Armenia	2.0	2.8	3.6	4.9	6.4	7.7
Djibouti	0.6	0.6	0.7	0.7	0.8	0.8
Georgia	3.2	4.0	5.1	6.4	7.8	9.3
Kyrgyz Republic	1.5	1.9	2.2	2.5	2.8	3.3
Mauritania	1.2	1.3	1.5	1.9	2.7	2.6
Sudan	12.6	17.8	21.7	27.9	37.6	47.2
Tajikistan	1.1	1.6	2.1	2.3	2.8	3.1
Uzbekistan	13.4	10.1	12.0	13.7	16.1	18.8
Yemen	8.6	11.9	13.6	15.2	18.7	21.7
Emerging markets	**245.3**	**262.8**	**287.8**	**315.5**	**361.3**	**406.2**
Egypt	91.4	81.4	78.8	89.8	107.4	129.1
Jordan	8.6	10.2	11.4	12.7	14.3	16.0
Lebanon	17.3	19.8	21.4	21.4	22.6	23.6
Morocco	34.9	43.8	50.0	51.6	57.4	62.3
Pakistan	72.9	82.6	98.1	111.0	129.0	141.4
Tunisia	20.2	25.0	28.1	29.0	30.6	33.7
Memorandum						
CCA	52.7	70.0	91.0	116.6	154.8	188.8
MENA	715.8	871.4	1041.7	1258.7	1477.5	1598.0
Of which						
GCC	311.4	406.3	481.4	607.7	718.0	749.7
Maghreb	139.1	162.1	195.1	226.5	255.3	275.6

Sources: Data provided by country authorities; and IMF staff estimates and projections.

Table 3. Oil and Non-Oil Real GDP Growth for Oil Exporters

(Annual change; in percent)

	Average 1998-2002	2003	2004	2005	2006	Proj. 2007
			Non-oil GDP			
Oil exporters	**4.4**	**6.6**	**6.8**	**6.8**	**7.1**	**6.7**
Algeria	3.6	5.9	6.2	5.1	4.7	5.4
Azerbaijan	4.2	15.2	13.5	8.4	12.7	9.0
Bahrain	4.4	8.3	8.8	10.2	8.7	7.6
Iran	4.7	7.0	5.4	5.0	5.8	5.3
Iraq	...	...	14.9	12.0	7.5	7.5
Kazakhstan	7.6	8.8	8.4	11.3	11.4	9.9
Kuwait	7.5	13.9	12.5	8.9	7.2	7.6
Libya	3.0	2.6	4.2	5.6	6.0	8.0
Oman	4.5	6.5	8.6	6.9	7.2	7.2
Qatar	3.7	7.3	24.6	13.1	6.3	5.3
Saudi Arabia	3.2	3.7	4.6	6.8	7.3	6.9
Syria	4.0	3.9	5.0	5.5	5.5	5.5
Turkmenistan	17.6	17.8	16.1	11.0	11.0	11.0
United Arab Emirates	7.0	11.2	12.6	11.0	11.1	10.1
			Oil GDP			
Oil exporters	**2.0**	**10.2**	**4.5**	**4.1**	**2.7**	**3.5**
Algeria	3.4	8.8	3.3	5.6	-1.2	2.5
Azerbaijan	20.0	0.7	2.5	65.3	61.8	52.9
Bahrain	7.3	1.1	-11.5	-8.4	0.3	0.3
Iran	0.7	8.4	2.9	-0.4	1.0	2.3
Iraq	...	...	74.2	-1.1	0.0	12.5
Kazakhstan	17.3	11.6	15.4	2.3	6.7	4.3
Kuwait	10.6	19.8	8.1	11.4	2.3	-1.6
Libya	-0.5	17.7	7.4	8.3	4.4	7.4
Oman	2.1	-6.8	-1.8	2.9	2.6	2.7
Qatar	10.2	0.8	18.0	0.6	11.1	10.3
Saudi Arabia	-1.8	17.2	6.7	5.9	-1.1	0.0
Syria	-1.3	-7.3	-6.0	-6.9	-7.5	-7.3
Turkmenistan	22.2	11.3	-1.7	3.0	3.0	6.8
United Arab Emirates	-1.3	13.6	2.9	2.1	6.0	2.5

Sources: Data provided by country authorities; and IMF staff estimates and projections.

Table 4: Crude Oil Production and Exports

(Millions of barrels per day)

	Average 1998-2002	2003	2004	2005	2006	Proj. 2007
			Production			
Oil exporters	**21.2**	**23.4**	**26.6**	**27.8**	**28.5**	**29.4**
Algeria	0.9	1.2	1.3	1.4	1.6	1.6
Azerbaijan	0.3	0.3	0.3	0.5	0.6	0.9
Bahrain	0.2	0.2	0.2	0.2	0.2	0.2
Iran	3.5	3.8	3.9	4.0	4.1	4.2
Iraq	...	...	2.0	2.0	2.0	2.3
Kazakhstan	0.8	1.1	1.2	1.3	1.3	1.4
Kuwait	1.9	2.1	2.3	2.6	2.6	2.6
Libya	1.4	1.5	1.6	1.7	1.7	1.9
Oman	0.9	0.8	0.8	0.8	0.7	0.7
Qatar	0.7	0.7	0.8	0.8	0.8	0.9
Saudi Arabia	7.8	8.4	8.9	9.4	9.3	9.3
Syria	0.5	0.5	0.5	0.4	0.4	0.4
Turkmenistan	0.2	0.2	0.2	0.2	0.2	0.2
United Arab Emirates	2.4	2.6	2.7	2.7	2.8	2.9
			Exports			
Oil exporters	**14.1**	**17.2**	**19.7**	**20.5**	**20.7**	**21.1**
Algeria	0.5	0.7	0.9	1.0	1.0	1.0
Azerbaijan	0.2	0.2	0.2	0.3	0.5	0.8
Bahrain	0.2	0.2	0.2	0.1	0.1	0.1
Iran	2.1	2.4	2.6	2.4	2.5	2.5
Iraq	...	...	1.5	1.4	1.4	1.7
Kazakhstan	0.5	0.9	1.1	1.1	1.2	1.2
Kuwait	1.1	1.2	1.4	1.7	1.7	1.6
Libya	1.0	1.2	1.3	1.3	1.3	1.4
Oman	0.9	0.8	0.7	0.7	0.6	0.6
Qatar	0.5	0.5	0.6	0.6	0.6	0.7
Saudi Arabia	5.9	6.5	6.8	7.2	7.0	6.8
Syria	0.3	0.3	0.2	0.2	0.2	0.1
Turkmenistan	0.0	0.0	0.0	0.0	0.0	0.0
United Arab Emirates	2.1	2.2	2.3	2.3	2.5	2.5

Sources: Data provided by country authorities; and IMF staff estimates and projections.

Table 5. Consumer Price Index

(Annual change; year average; in percent)

	Average 1998-2002	2003	2004	2005	2006	Proj. 2007
Middle East and Central Asia	**5.8**	**5.7**	**6.9**	**6.7**	**7.3**	**8.9**
Oil exporters	**5.6**	**6.8**	**6.6**	**6.7**	**7.1**	**10.1**
Algeria	2.7	2.6	3.6	1.6	2.5	5.5
Azerbaijan	-0.6	2.2	6.7	9.7	8.4	21.1
Bahrain	-0.8	1.7	2.3	2.6	3.0	3.0
Iran	15.1	16.5	14.8	13.4	11.9	17.6
Iraq	12.7	35.1	7.8	38.5	64.8	30.0
Kazakhstan	8.7	6.4	6.9	7.6	8.6	8.8
Kuwait	1.5	1.0	1.3	4.1	3.0	2.8
Libya	-3.1	-2.1	-2.2	2.0	3.4	16.2
Oman	-0.3	0.2	0.7	1.9	3.2	3.8
Qatar	1.6	2.3	6.8	8.8	11.8	10.0
Saudi Arabia	-0.7	0.6	0.4	0.7	2.3	2.8
Syria	-1.1	5.8	4.4	7.2	10.0	8.0
Turkmenistan	13.7	5.6	5.9	10.7	8.2	6.5
United Arab Emirates	2.2	3.1	5.0	7.8	10.1	8.0
Low-income countries	**19.9**	**9.4**	**8.4**	**11.2**	**11.3**	**9.7**
Afghanistan	...	35.7	12.6	12.7	7.2	5.7
Armenia	2.5	4.7	7.0	0.6	2.9	4.0
Djibouti	1.3	2.0	3.1	3.1	3.6	3.5
Georgia	7.4	4.8	5.7	8.3	9.2	6.3
Kyrgyz Republic	14.8	3.1	4.1	4.3	5.6	5.0
Mauritania	5.9	5.3	10.4	12.1	6.2	7.9
Sudan	10.9	7.7	8.4	8.5	7.2	9.2
Tajikistan	30.9	16.4	7.2	7.3	10.1	11.4
Uzbekistan	45.4	14.8	8.8	21.0	19.5	10.4
Yemen	10.9	10.8	12.5	11.8	21.6	21.1
Emerging markets	**3.2**	**3.1**	**7.3**	**5.6**	**6.8**	**6.7**
Egypt	3.1	4.5	11.3	4.9	7.6	10.4
Jordan	1.6	1.6	3.4	3.5	6.3	5.7
Lebanon	1.2	1.3	1.7	-0.7	5.6	3.5
Morocco	1.8	1.2	1.5	1.0	3.3	2.0
Pakistan	4.2	2.9	7.4	9.1	7.9	6.3
Tunisia	2.6	2.7	3.6	2.0	4.5	3.0
Memorandum						
CCA	16.8	7.7	7.1	10.2	10.4	11.1
MENA	4.9	6.0	6.9	5.8	6.9	9.1
Of which						
GCC	0.1	1.2	1.7	2.8	4.5	4.3
Maghreb	1.7	1.7	2.4	1.7	3.2	5.6

Sources: Data provided by country authorities; and IMF staff estimates and projections.

Table 6. Broad Money

(Annual change; in percent)

	Average 1998-2002	2003	2004	2005	2006	Proj. 2007
Middle East and Central Asia	**14.5**	**14.2**	**20.1**	**20.4**	**24.7**	**17.8**
Oil exporters	**15.1**	**13.1**	**21.8**	**21.5**	**27.8**	**19.2**
Algeria	22.5	15.6	11.5	10.7	14.0	17.4
Azerbaijan	14.7	29.8	47.5	22.1	86.4	79.0
Bahrain	10.1	6.3	4.2	22.0	16.7	15.2
Iran	27.1	24.6	31.0	33.7	34.3	28.2
Iraq	...	...	...	...	...	...
Kazakhstan	38.6	27.0	69.8	25.2	79.9	40.0
Kuwait	4.9	7.8	12.1	12.3	21.7	16.2
Libya	7.9	8.1	9.2	29.2	20.2	28.4
Oman	6.3	2.6	4.3	20.9	24.5	12.3
Qatar	12.3	4.8	20.8	42.9	47.3	19.5
Saudi Arabia	7.6	6.9	18.8	11.6	19.3	11.4
Syria	17.0	7.7	11.1	11.5	7.2	9.7
Turkmenistan	43.5	40.9	12.7	27.9	55.9	40.4
United Arab Emirates	12.4	16.1	23.2	33.8	29.6	12.9
Low-income countries	**28.5**	**25.5**	**30.5**	**34.3**	**31.8**	**24.3**
Afghanistan	...	40.9	34.6	16.2	19.8	14.1
Armenia	25.5	10.4	22.3	27.8	32.9	25.0
Djibouti	7.5	17.8	13.9	11.3	10.2	12.9
Georgia	19.0	22.8	42.6	26.4	39.3	27.0
Kyrgyz Republic	21.7	33.5	32.0	9.9	51.6	30.1
Mauritania	17.9	25.5	13.5	14.6	15.5	14.8
Sudan	28.3	30.3	32.1	44.7	27.4	27.0
Tajikistan	46.4	28.6	14.1	23.9	56.3	20.4
Uzbekistan	38.2	27.1	47.8	54.3	36.8	30.0
Yemen	17.2	20.0	13.9	13.7	27.7	14.7
Emerging markets	**10.7**	**14.9**	**13.9**	**14.6**	**14.0**	**11.7**
Egypt	11.2	16.9	13.2	13.6	13.5	15.2
Jordan	8.6	12.4	11.7	17.0	14.1	10.3
Lebanon[1]	10.6	15.4	12.3	3.5	6.4	3.5
Morocco	9.0	8.6	7.7	14.0	17.2	9.3
Pakistan	10.9	18.0	19.6	19.3	15.2	12.5
Tunisia	10.9	6.3	10.3	11.0	11.2	8.4
Memorandum						
CCA	34.0	26.5	55.9	29.6	67.8	41.5
MENA	13.5	13.1	17.8	19.9	22.3	16.2
Of which						
GCC	8.4	8.6	18.0	19.1	23.9	13.1
Maghreb	13.8	11.1	9.9	14.5	15.5	16.3

Sources: Data provided by country authorities; and IMF staff estimates and projections.

[1]Broad money is defined to include nonresident deposits.

Table 7. Central Government Fiscal Balance

(In percent of GDP)

	Average 1998-2002	2003	2004	2005	2006	Proj. 2007
Middle East and Central Asia	**-1.8**	**0.7**	**2.4**	**4.5**	**5.3**	**3.4**
Oil exporters	**-0.2**	**4.1**	**6.7**	**10.8**	**11.8**	**8.9**
Algeria	1.5	7.8	6.9	11.9	11.9	9.1
Azerbaijan	-2.1	-0.8	1.0	2.7	0.1	2.4
Bahrain	0.9	1.8	4.7	5.6	7.3	5.4
Iran	-0.9	1.3	1.7	1.1	1.6	2.1
Iraq[1]	...	...	-41.2	10.1	12.3	-11.8
Kazakhstan[1]	-1.9	2.7	2.5	5.8	7.8	4.8
Kuwait	20.5	17.4	22.3	34.0	32.0	32.5
Libya	5.1	14.8	17.4	26.5	38.6	24.6
Oman	3.5	4.7	4.5	12.2	15.6	6.9
Qatar	0.9	3.9	16.4	9.2	2.0	0.7
Saudi Arabia	-4.3	1.2	9.6	18.4	20.3	13.0
Syria[1]	-1.1	-2.6	-4.3	-4.7	-3.3	-6.7
Turkmenistan[1]	-0.4	-1.3	0.4	0.8	5.1	0.4
United Arab Emirates[2]	1.4	13.0	18.4	26.8	25.8	25.0
Low-income countries	**-1.9**	**-0.9**	**-0.1**	**-1.4**	**-0.1**	**-2.3**
Afghanistan	-0.1	-3.0	-1.2	0.9	-3.8	-2.7
Armenia	-4.6	-1.1	-1.7	-2.6	-1.3	-2.3
Djibouti	-1.8	-2.3	-1.9	0.2	0.6	-3.4
Georgia[1]	-3.2	-1.3	-0.2	-2.4	-2.9	-2.5
Kyrgyz Republic[1]	-9.2	-4.7	-4.4	-3.7	-2.3	-3.1
Mauritania[3]	-5.2	-11.8	-4.8	-7.1	36.4	-2.2
Sudan	0.0	0.7	1.5	-1.8	-4.2	-3.8
Tajikistan[1]	-4.0	-1.8	-2.4	-2.9	1.7	-14.1
Uzbekistan[1]	-2.5	0.1	0.6	1.3	3.6	2.9
Yemen[1]	0.1	-4.2	-2.2	-2.0	-0.9	-3.9
Emerging markets	**-4.4**	**-4.9**	**-4.5**	**-5.3**	**-5.2**	**-5.1**
Egypt[1]	-3.2	-9.0	-8.3	-8.4	-8.9	-8.5
Jordan	-4.5	-1.0	-1.7	-5.0	-4.3	-1.6
Lebanon	-17.4	-13.3	-8.7	-8.5	-11.2	-12.4
Morocco	-4.5	-4.9	-4.3	-5.4	-1.9	-2.5
Pakistan[1]	-4.5	-1.4	-1.8	-3.0	-3.6	-3.5
Tunisia	-3.4	-3.2	-2.6	-3.0	-3.0	-2.8
Memorandum						
CCA	-2.6	0.8	1.1	2.9	4.1	2.4
MENA	-1.2	1.1	3.3	6.0	6.9	4.7
Of which						
GCC	-0.3	5.3	12.3	20.4	21.1	16.1
Maghreb	-0.4	3.4	3.7	6.8	9.7	6.1

Sources: Data provided by country authorities; and IMF staff estimates and projections.

[1]General government.

[2]Consolidated accounts of the federal government, and the emirates Abu Dhabi, Dubai, and Sharjah.

[3]Includes oil revenue transferred to the oil fund. The large surplus in 2006 reflects debt relief under the MDRI.

Table 8. Central Government Total Revenue Excluding Grants

(In percent of GDP)

	Average 1998-2002	2003	2004	2005	2006	Proj. 2007
Middle East and Central Asia	**25.5**	**27.9**	**29.1**	**32.1**	**33.0**	**31.4**
Oil exporters	**28.8**	**32.6**	**34.5**	**39.4**	**40.0**	**38.3**
Algeria	33.0	36.9	36.1	41.0	41.8	41.9
Azerbaijan	21.0	26.7	26.8	26.4	29.6	33.3
Bahrain	28.9	30.8	30.4	30.8	31.1	27.4
Iran	19.8	24.0	24.4	29.6	29.4	29.2
Iraq[1]	...	...	70.5	74.2	66.9	53.1
Kazakhstan[1]	20.9	25.4	24.6	28.1	29.0	27.7
Kuwait	64.0	54.7	56.9	62.2	67.4	69.9
Libya	40.9	53.9	58.5	68.6	71.2	66.5
Oman	42.7	45.2	45.1	48.1	49.6	45.2
Qatar	37.0	35.7	47.7	42.0	33.0	33.1
Saudi Arabia	30.0	34.5	41.8	48.6	50.2	44.7
Syria[1]	27.1	28.8	27.6	25.1	25.2	21.3
Turkmenistan[1]	20.9	18.0	19.3	20.5	19.8	17.3
United Arab Emirates[2]	37.2	41.1	42.9	48.4	46.7	45.8
Low-income countries	**20.8**	**22.2**	**24.0**	**25.5**	**25.7**	**24.5**
Afghanistan	3.2	4.5	4.5	5.7	6.4	7.2
Armenia	16.1	14.6	14.9	15.2	15.6	16.0
Djibouti	23.9	28.0	28.8	30.9	31.8	29.4
Georgia[1]	15.1	15.7	20.8	22.5	24.7	22.8
Kyrgyz Republic[1]	20.0	21.7	22.3	23.7	25.8	25.4
Mauritania[3]	22.3	30.7	29.7	24.5	29.9	26.5
Sudan	9.5	16.0	19.7	21.7	18.9	18.1
Tajikistan[1]	14.1	17.0	17.3	19.3	18.7	18.7
Uzbekistan[1]	36.7	32.3	31.4	31.8	35.5	35.5
Yemen[1]	31.6	30.5	32.0	38.1	39.6	33.4
Emerging markets	**20.7**	**21.0**	**20.6**	**20.5**	**22.1**	**20.5**
Egypt[1]	27.4	25.4	24.5	24.2	27.9	23.9
Jordan	26.1	23.0	25.7	28.0	30.5	29.3
Lebanon	18.7	22.1	23.2	22.9	22.0	23.1
Morocco	25.8	24.6	25.3	27.2	28.6	27.3
Pakistan[1]	13.4	14.9	14.1	13.7	14.0	14.2
Tunisia	24.1	23.6	23.9	23.8	23.9	22.9
Memorandum						
CCA	23.9	25.5	25.2	27.1	29.0	29.1
MENA	27.7	30.3	32.0	35.8	36.7	34.6
Of which						
GCC	35.3	38.3	43.5	49.0	49.7	46.3
Maghreb	31.4	34.6	35.1	39.0	40.0	39.0

Sources: Data provided by country authorities; and IMF staff estimates and projections.

[1]General government.

[2]Consolidated accounts of the federal government, and the emirates Abu Dhabi, Dubai, and Sharjah.

[3]Includes oil revenue transferred to the oil fund.

Table 9. Central Government Non-Oil Fiscal Balance

(In percent of non-oil GDP)

	Average 1998-2002	2003	2004	2005	2006	Proj. 2007
Oil exporters	**-26.6**	**-30.9**	**-31.1**	**-36.4**	**-35.6**	**-34.1**
Algeria	-29.6	-27.8	-30.3	-35.3	-39.1	-41.0
Azerbaijan	-8.8	-17.3	-13.2	-12.9	-32.6	-40.8
Bahrain	-25.4	-33.0	-28.7	-29.0	-28.2	-24.0
Iran	-14.5	-20.0	-20.3	-27.9	-25.7	-23.6
Iraq[1]	...	...	-277.5	-130.8	-97.2	-100.8
Kazakhstan[1]	-5.4	-4.3	-6.5	-7.5	-4.3	-5.0
Kuwait	-39.8	-44.5	-42.6	-38.4	-52.1	-46.2
Libya	-34.8	-79.1	-92.7	-130.0	-104.2	-88.8
Oman	-54.3	-57.8	-62.9	-63.6	-60.0	-61.5
Qatar	-51.0	-46.2	-33.0	-47.1	-51.2	-50.5
Saudi Arabia	-41.9	-46.7	-46.5	-52.3	-52.0	-50.4
Syria[1]	-17.7	-22.0	-20.2	-17.9	-15.1	-13.9
Turkmenistan[1]	-11.2	-13.7	-10.0	-13.1	-7.9	-14.3
United Arab Emirates[2]	-32.0	-28.0	-21.3	-16.0	-16.6	-13.6

Sources: Data provided by country authorities; and IMF staff estimates and projections.

[1]General government.

[2]Consolidated accounts of the federal government, and the emirates Abu Dhabi, Dubai, and Sharjah.

Table 10. Central Government Non-Oil Revenue

(In percent of non-oil GDP)

	Average 1998-2002	2003	2004	2005	2006	Proj. 2007
Oil exporters	**14.6**	**13.8**	**15.0**	**15.7**	**16.6**	**17.0**
Algeria	16.5	17.5	17.0	17.7	17.4	19.0
Azerbaijan	22.2	22.1	24.3	27.6	31.9	31.9
Bahrain	12.3	10.5	10.3	10.2	9.7	8.5
Iran	10.2	9.5	10.0	11.6	11.9	11.9
Iraq[2]	...	...	3.9	7.5	6.8	5.3
Kazakhstan[2]	23.3	26.0	25.0	27.1	27.5	26.7
Kuwait	38.2	22.9	25.8	29.9	36.0	36.9
Libya	21.5	16.8	21.9	17.0	20.3	22.2
Oman	14.8	16.6	13.6	13.9	15.3	14.4
Qatar	24.0	31.2	35.6	34.2	30.1	29.2
Saudi Arabia	11.5	9.8	12.1	10.8	11.9	12.4
Syria[2]	18.0	17.8	21.1	20.8	21.2	20.6
Turkmenistan[1]	15.4	9.8	13.6	13.2	12.8	9.9
United Arab Emirates[3]	17.1	11.8	14.3	16.8	17.9	18.2

Sources: Data provided by country authorities; and IMF staff estimates and projections.

[1]Including tax credits granted to the State Oil Company for underpayments by domestic consumers for energy deliveries.

[2]General government.

[3]Consolidated accounts of the federal government, and the emirates Abu Dhabi, Dubai, and Sharjah.

Table 11. Central Government Total Expenditure and Net Lending

(In percent of GDP)

	Average 1998-2002	2003	2004	2005	2006	Proj. 2007
Middle East and Central Asia	**27.5**	**27.9**	**27.0**	**27.6**	**28.0**	**28.2**
Oil exporters	**28.9**	**28.7**	**28.0**	**28.4**	**28.1**	**29.4**
Algeria[1]	31.6	29.2	29.3	29.1	29.9	32.8
Azerbaijan[2]	23.1	28.5	25.9	23.9	29.0	31.0
Bahrain	29.2	29.5	26.3	25.6	24.1	22.4
Iran	20.8	22.7	22.7	28.5	27.8	27.2
Iraq[3]	...	...	120.8	90.1	72.2	73.2
Kazakhstan[3]	23.0	22.6	22.1	22.3	21.2	22.9
Kuwait	43.5	37.3	34.6	28.3	35.4	37.4
Libya	35.3	43.4	43.3	34.9	32.3	41.9
Oman	38.5	39.5	39.8	35.2	33.8	38.4
Qatar	36.2	31.7	31.3	32.9	31.0	32.4
Saudi Arabia	34.4	33.3	32.1	30.2	29.8	31.7
Syria[3]	28.1	31.4	31.9	29.7	28.5	28.0
Turkmenistan[3]	21.3	19.4	18.9	19.7	14.6	16.9
United Arab Emirates[4]	35.8	28.1	24.5	21.6	20.8	20.8
Low-income countries	**23.3**	**24.0**	**24.4**	**27.2**	**27.6**	**27.5**
Afghanistan	8.5	14.0	13.9	14.7	18.9	19.0
Armenia	22.4	18.9	17.1	18.3	17.6	18.7
Djibouti	32.3	36.3	37.5	36.8	36.1	38.4
Georgia[3]	19.8	18.7	18.9	24.9	29.1	26.8
Kyrgyz Republic[3]	30.3	27.2	27.7	28.4	28.8	30.7
Mauritania[3]	30.5	47.2	37.7	33.7	28.9	30.4
Sudan	9.5	15.3	18.2	23.5	23.6	22.5
Tajikistan[3]	18.2	19.1	20.3	23.0	21.7	34.8
Uzbekistan[3]	39.7	33.4	31.6	30.9	32.2	32.9
Yemen[3]	32.0	35.0	34.9	40.6	40.8	37.7
Emerging markets	**25.8**	**27.4**	**26.0**	**26.3**	**27.9**	**26.2**
Egypt[3]	31.2	35.2	33.8	33.1	37.1	32.8
Jordan	34.8	35.8	38.4	38.0	38.0	35.9
Lebanon	36.3	35.4	31.9	31.4	36.0	39.1
Morocco[5]	30.4	29.6	29.9	33.1	31.0	30.3
Pakistan[3]	18.7	18.7	16.4	17.0	18.2	18.1
Tunisia	27.8	27.0	26.8	26.9	27.1	26.0
Memorandum						
CCA	27.0	25.4	24.3	24.5	25.2	27.0
MENA	29.1	29.7	29.1	29.8	30.0	30.1
Of which						
GCC	35.6	32.9	31.2	28.6	28.6	30.1
Maghreb	31.9	31.9	31.8	31.5	30.9	33.1

Sources: Data provided by country authorities; and IMF staff estimates and projections.

[1]Including special accounts.

[2]Expenditures do not include statistical discrepancy.

[3]General government.

[4]Consolidated accounts of the federal government, and the emirates Abu Dhabi, Dubai, and Sharjah.

[5]Net lending includes balance on special treasury accounts.

Table 12. Total Government Debt

(In percent of GDP)

	Average 1998-2002	2003	2004	2005	2006	Proj. 2007
Middle East and Central Asia	**65.8**	**60.6**	**54.0**	**47.2**	**40.0**	**35.5**
Oil exporters	**50.8**	**39.9**	**33.3**	**24.8**	**19.4**	**16.5**
Algeria	71.9	43.8	36.6	28.1	21.2	17.2
Azerbaijan	22.0	21.8	20.2	14.1	10.8	11.1
Bahrain	29.0	36.9	34.6	30.6	26.8	25.0
Iran	26.4	26.4	26.3	22.4	19.6	17.7
Iraq[1]	...	...	387.3	211.8	113.0	93.5
Kazakhstan[1]	21.1	14.9	11.4	8.1	6.8	5.6
Kuwait	40.0	23.0	17.4	11.8	7.6	7.0
Libya	48.6	26.7	1.6	1.1	0.9	0.0
Oman	27.6	16.3	15.3	9.5	7.4	6.4
Qatar	60.2	41.8	29.1	20.6	16.5	15.0
Saudi Arabia	96.7	82.0	65.0	39.6	28.0	21.1
Syria[1]	62.9	61.9	57.0	60.0	49.5	50.0
Turkmenistan[1]	42.1	13.6	9.2	5.4	3.3	2.0
United Arab Emirates	5.5	6.6	8.4	9.5	8.1	7.7
Low-income countries	**111.7**	**97.9**	**81.9**	**69.8**	**54.5**	**49.1**
Afghanistan	...	...	...	...	...	...
Armenia	42.5	40.9	32.4	24.2	20.8	15.9
Djibouti	61.9	69.3	69.3	64.6	59.0	57.2
Georgia[1]	65.7	59.7	45.7	35.7	28.8	22.8
Kyrgyz Republic[1]	117.4	106.9	92.7	85.1	74.7	66.4
Mauritania	213.1	259.1	232.7	208.6	106.1	105.9
Sudan	180.6	149.9	124.9	105.5	82.9	73.1
Tajikistan[1]	102.8	64.8	43.1	41.9	33.6	41.9
Uzbekistan[1]	42.9	41.6	35.1	29.5	22.6	18.6
Yemen[1]	60.9	52.6	50.5	46.4	38.6	37.4
Emerging markets	**81.5**	**88.9**	**84.4**	**82.3**	**73.7**	**66.5**
Egypt[1]	82.5	114.3	112.5	111.9	97.8	81.1
Jordan[1]	106.7	99.6	91.9	83.5	74.0	65.0
Lebanon	143.8	168.6	167.8	179.5	178.9	176.0
Morocco	77.8	68.9	65.8	70.5	64.3	64.1
Pakistan[1]	81.5	75.3	67.8	61.8	56.1	53.0
Tunisia[1]	60.2	60.4	59.7	58.4	55.6	54.5
Memorandum						
CCA	37.1	31.0	25.1	19.7	15.8	13.8
MENA	65.7	61.4	55.0	48.0	40.3	35.3
Of which						
GCC	67.5	54.9	43.9	28.0	20.1	15.9
Maghreb	70.5	53.3	45.7	42.3	36.3	34.1

Sources: Data provided by country authorities; and IMF staff estimates and projections.

[1]General government.

Table 13. Exports of Goods and Services

(In billions of U.S. dollars)

	Average 1998-2002	2003	2004	2005	2006	Proj. 2007
Middle East and Central Asia	**294.2**	**426.1**	**572.6**	**770.3**	**927.2**	**956.7**
Oil exporters	**227.7**	**338.6**	**467.1**	**647.9**	**785.6**	**802.2**
Algeria	17.3	26.0	34.1	48.8	57.0	56.2
Azerbaijan	1.9	3.1	4.2	8.3	14.0	18.4
Bahrain	5.9	7.9	9.1	11.8	15.5	14.8
Iran	25.4	39.5	50.4	66.6	77.3	83.0
Iraq	...	...	17.8	22.2	29.4	30.4
Kazakhstan	9.3	14.9	22.6	30.5	41.5	43.4
Kuwait	16.3	24.9	33.8	51.7	60.8	56.9
Libya	11.0	15.1	20.8	31.4	39.4	40.5
Oman	9.8	12.3	14.1	19.5	22.9	22.1
Qatar	9.6	14.5	20.4	29.0	30.6	30.9
Saudi Arabia	66.6	99.1	132.0	188.1	220.2	212.7
Syria	6.4	7.7	10.4	12.2	12.6	12.6
Turkmenistan	2.2	3.7	4.2	5.3	7.5	9.0
United Arab Emirates	46.1	70.0	93.2	122.5	157.1	171.3
Low-income countries	**11.4**	**17.2**	**21.2**	**25.6**	**30.4**	**32.5**
Afghanistan	1.3	2.0	1.7	1.9	2.0	2.2
Armenia	0.5	0.9	1.0	1.3	1.4	1.5
Djibouti	0.2	0.3	0.3	0.3	0.3	0.5
Georgia	0.9	1.3	2.0	2.6	3.3	3.6
Kyrgyz Republic	0.6	0.7	0.9	0.9	1.2	1.4
Mauritania	0.4	0.4	0.5	0.7	1.5	1.5
Sudan	1.4	2.6	3.8	5.0	6.1	7.1
Tajikistan	0.7	1.0	1.2	0.6	0.7	0.7
Uzbekistan	3.2	3.8	4.8	5.4	6.6	7.6
Yemen	3.1	4.2	5.0	6.8	7.4	6.4
Emerging markets	**55.1**	**70.3**	**84.2**	**96.8**	**111.1**	**121.9**
Egypt	15.1	18.0	22.9	28.0	33.0	35.8
Jordan	3.8	4.8	6.0	6.6	7.5	8.4
Lebanon	6.4	8.7	10.5	11.3	13.0	13.8
Morocco	10.9	14.2	16.6	18.8	21.9	24.1
Pakistan	10.0	13.7	15.1	17.8	20.3	22.7
Tunisia	8.9	10.8	13.2	14.3	15.4	17.2
Memorandum						
CCA	19.3	29.5	41.0	55.1	76.1	85.7
MENA	265.0	383.0	516.4	697.4	830.8	848.3
Of which						
GCC	154.3	228.7	302.6	422.5	507.1	508.6
Maghreb	48.5	66.6	85.2	114.1	135.1	139.5

Sources: Data provided by country authorities; and IMF staff estimates and projections.

Table 14. Imports of Goods and Services

(In billions of U.S. dollars)

	Average 1998-2002	2003	2004	2005	2006	Proj. 2007
Middle East and Central Asia	**265.3**	**349.5**	**465.0**	**564.6**	**693.2**	**814.5**
Oil exporters	**179.2**	**247.0**	**339.4**	**411.8**	**511.6**	**612.3**
Algeria	12.1	16.3	21.8	24.6	26.3	36.8
Azerbaijan	2.3	4.8	6.3	7.0	8.1	8.6
Bahrain	4.7	6.2	7.0	8.6	10.6	10.4
Iran	20.5	39.3	49.0	53.2	64.8	71.6
Iraq	...	...	24.3	25.7	29.5	38.9
Kazakhstan	9.1	13.3	18.9	25.5	32.6	35.7
Kuwait	12.6	16.5	19.2	24.5	27.4	32.4
Libya	6.2	8.8	10.7	13.2	15.6	24.9
Oman	6.8	8.3	10.6	13.1	16.4	18.5
Qatar	5.2	6.7	8.3	13.2	19.7	22.9
Saudi Arabia	51.4	59.1	70.6	88.2	120.2	142.9
Syria	5.6	6.8	10.0	12.1	13.2	14.2
Turkmenistan	2.3	3.4	4.1	3.9	3.6	5.4
United Arab Emirates	40.4	57.7	78.5	99.0	123.6	149.1
Low-income countries	**14.1**	**21.7**	**26.2**	**33.0**	**39.9**	**44.8**
Afghanistan	2.7	4.3	4.4	5.0	5.6	5.9
Armenia	1.0	1.4	1.5	2.0	2.4	2.7
Djibouti	0.3	0.3	0.3	0.4	0.4	0.7
Georgia	1.4	1.8	2.7	3.4	4.7	5.6
Kyrgyz Republic	0.7	0.9	1.1	1.4	2.2	2.5
Mauritania	0.6	0.7	1.2	1.8	1.6	1.8
Sudan	2.3	3.4	4.7	7.7	10.0	10.8
Tajikistan	0.8	1.1	1.5	1.2	1.6	2.3
Uzbekistan	3.1	3.1	3.9	4.1	4.6	5.3
Yemen	3.4	4.6	5.0	6.0	6.8	7.3
Emerging markets	**72.0**	**80.8**	**99.3**	**119.8**	**141.7**	**157.4**
Egypt	21.4	19.6	23.3	30.2	38.2	41.8
Jordan	5.7	7.0	9.4	11.9	13.1	14.5
Lebanon	11.0	12.6	15.2	14.9	15.8	17.8
Morocco	12.3	16.0	19.8	22.8	25.4	29.1
Pakistan	12.1	14.0	17.7	25.6	33.1	36.5
Tunisia	9.6	11.7	13.9	14.4	16.0	17.7
Memorandum						
CCA	20.7	29.8	40.0	48.5	59.9	68.2
MENA	232.4	305.7	407.3	490.4	600.2	709.8
Of which						
GCC	121.0	154.4	194.4	246.6	317.9	376.1
Maghreb	40.8	53.5	67.4	76.8	84.9	110.3

Sources: Data provided by country authorities; and IMF staff estimates and projections.

Table 15. Current Account Balance

(In billions of U.S. dollars)

	Average 1998-2002	2003	2004	2005	2006	Proj. 2007
Middle East and Central Asia	**25.5**	**70.1**	**99.4**	**208.4**	**244.4**	**165.7**
Oil exporters	**32.2**	**65.8**	**98.2**	**213.4**	**254.5**	**180.2**
Algeria	3.9	8.8	11.1	21.2	27.9	17.7
Azerbaijan	-0.6	-2.0	-2.6	0.2	3.1	7.9
Bahrain	0.0	0.2	0.4	1.6	2.9	2.1
Iran	5.3	0.8	2.0	14.0	14.3	13.7
Iraq	...	...	-9.7	1.3	6.6	-5.1
Kazakhstan	-0.6	-0.3	0.3	-0.7	-1.1	-0.8
Kuwait	6.9	9.4	18.2	32.7	41.4	32.8
Libya	4.2	5.2	7.4	17.3	24.4	15.6
Oman	0.6	0.9	0.3	2.7	3.0	-0.3
Qatar	2.2	5.8	7.6	10.7	6.1	2.8
Saudi Arabia	4.6	28.1	52.0	90.8	95.5	69.9
Syria	0.8	1.1	0.7	0.2	-0.4	-1.2
Turkmenistan	-0.1	0.3	0.1	0.9	3.4	3.1
United Arab Emirates	4.8	7.6	10.3	20.5	27.4	22.0
Low-income countries	**-2.2**	**-1.1**	**-1.0**	**-2.2**	**-3.5**	**-5.4**
Afghanistan	-0.1	0.1	0.1	0.0	-0.1	-0.4
Armenia	-0.3	-0.2	-0.2	-0.2	-0.3	-0.4
Djibouti	0.0	0.0	0.0	0.0	-0.1	-0.1
Georgia	-0.3	-0.3	-0.4	-0.3	-0.7	-1.4
Kyrgyz Republic	-0.1	-0.1	-0.1	-0.1	-0.5	-0.4
Mauritania	0.0	-0.2	-0.5	-0.9	0.0	0.0
Sudan	-1.8	-1.4	-1.4	-2.9	-5.4	-5.4
Tajikistan	0.0	0.0	-0.1	-0.1	-0.1	-0.5
Uzbekistan	0.0	0.9	1.2	1.9	3.1	3.7
Yemen	0.5	0.0	0.3	0.2	0.7	-0.4
Emerging markets	**-4.6**	**5.4**	**2.3**	**-2.8**	**-6.6**	**-9.1**
Egypt	-1.0	1.9	3.4	2.9	0.9	0.9
Jordan	0.2	1.2	0.0	-2.3	-2.3	-2.3
Lebanon	-3.4	-2.6	-3.4	-2.5	-1.5	-2.6
Morocco	0.5	1.6	1.0	0.9	2.2	1.3
Pakistan	-0.1	4.1	1.8	-1.5	-5.0	-5.6
Tunisia	-0.7	-0.7	-0.6	-0.3	-0.9	-0.7
Memorandum						
CCA	-2.0	-1.7	-1.7	1.6	6.9	11.1
MENA	27.6	67.7	99.3	208.3	242.5	160.2
Of which						
GCC	19.2	51.9	88.8	159.0	176.3	129.3
Maghreb	7.8	14.7	18.4	38.2	53.6	33.8

Sources: Data provided by country authorities; and IMF staff estimates and projections.

Table 16. Current Account Balance

(In percent of GDP)

	Average 1998-2002	2003	2004	2005	2006	Proj. 2007
Middle East and Central Asia	**2.8**	**6.9**	**8.3**	**14.5**	**14.5**	**9.0**
Oil exporters	**5.4**	**9.3**	**11.2**	**19.6**	**19.6**	**12.9**
Algeria	7.1	13.0	13.1	20.7	24.4	15.3
Azerbaijan	-12.3	-27.8	-29.8	1.3	15.7	27.4
Bahrain	0.1	2.3	4.0	12.0	18.1	12.2
Iran	5.1	0.6	1.2	7.4	6.7	6.0
Iraq	...	...	-37.6	3.9	13.1	-8.0
Kazakhstan	-2.5	-0.9	0.8	-1.3	-1.4	-0.9
Kuwait	19.9	19.7	30.6	40.5	43.1	34.4
Libya	12.3	21.5	24.3	41.6	48.5	25.6
Oman	1.4	3.9	1.2	8.7	8.4	-0.8
Qatar	10.9	24.4	23.8	25.2	11.6	5.0
Saudi Arabia	2.1	13.1	20.7	29.3	27.4	19.7
Syria	4.0	4.7	3.0	0.8	-1.2	-3.4
Turkmenistan	-6.2	2.7	0.6	5.1	15.3	11.7
United Arab Emirates	7.1	8.6	10.0	15.8	16.2	11.8
Low-income countries	**-4.9**	**-1.9**	**-1.5**	**-2.7**	**-3.4**	**-4.3**
Afghanistan	-3.7	3.0	1.8	0.6	-1.7	-3.8
Armenia	-13.8	-6.8	-4.5	-3.9	-5.0	-5.4
Djibouti	-5.3	3.4	-1.3	1.2	-8.9	-13.9
Georgia	-8.6	-7.3	-8.4	-5.4	-9.5	-15.2
Kyrgyz Republic	-9.5	-4.4	-3.5	-2.3	-16.8	-12.6
Mauritania	-4.3	-13.6	-34.6	-47.2	-1.3	-1.5
Sudan	-14.4	-7.7	-6.2	-10.5	-14.5	-11.5
Tajikistan	-3.7	-1.3	-3.9	-2.5	-2.5	-15.2
Uzbekistan	0.1	8.7	10.1	14.3	19.4	19.7
Yemen	4.7	-0.1	1.9	1.6	3.6	-1.9
Emerging markets	**-1.9**	**2.1**	**0.8**	**-0.9**	**-1.8**	**-2.2**
Egypt	-1.1	2.4	4.3	3.2	0.8	0.7
Jordan	2.3	11.6	0.0	-17.8	-16.0	-14.7
Lebanon	-19.9	-13.3	-15.8	-11.7	-6.8	-11.0
Morocco	1.3	3.6	1.9	1.7	3.9	2.1
Pakistan	-0.1	4.9	1.8	-1.4	-3.9	-4.0
Tunisia	-3.5	-2.9	-2.0	-1.0	-2.8	-2.2
Memorandum						
CCA	-4.1	-2.9	-2.2	1.6	5.2	6.8
MENA	3.5	7.8	9.8	17.1	17.1	10.5
Of which						
GCC	5.4	12.8	18.4	26.2	24.6	17.3
Maghreb	5.5	9.0	9.4	16.9	21.0	12.3

Sources: Data provided by country authorities; and IMF staff estimates and projections.

Table 17. Real Effective Exchange Rates

(CPI based; annual average percent change; increase indicates appreciation)

	Average 1998-2002	2003	2004	2005	2006
Middle East and Central Asia	**-0.5**	**-8.7**	**-3.1**	**1.3**	**3.1**
Oil exporters	**0.0**	**-7.2**	**-3.4**	**0.8**	**2.3**
Algeria	-2.4	-9.5	0.6	-3.9	0.1
Azerbaijan	-3.9	-10.7	-3.5	6.6	8.9
Bahrain	0.4	-7.7	-6.7	-2.8	-2.8
Iran	4.6	-2.1	1.1	6.2	4.1
Iraq	...	...	...	...	...
Kazakhstan	-3.3	-3.6	5.8	3.1	7.8
Kuwait	1.7	-7.2	-5.1	2.1	1.0
Libya	-15.4	-17.3	-13.1	-1.8	-1.6
Oman	-0.3	-8.3	-6.0	-0.5	0.8
Qatar	2.3	-5.7	-0.1	7.1	8.3
Saudi Arabia	0.1	-8.5	-6.7	-2.6	-0.5
Syria	-0.2	-6.6	-5.6	-1.7	8.0
Turkmenistan	16.8	-6.1	-3.6	2.4	4.2
United Arab Emirates	3.1	-6.8	-3.5	2.8	5.2
Low-income countries	**-2.8**	**-7.5**	**0.5**	**6.4**	**11.0**
Afghanistan	-5.2	6.0	8.3	1.9	-0.3
Armenia	0.8	-9.0	4.1	9.7	6.6
Djibouti	3.1	-9.3	-3.6	-1.1	-1.1
Georgia	-1.7	-6.5	5.6	3.3	3.2
Kyrgyz Republic	-3.9	-0.6	-3.2	1.2	1.5
Mauritania	-1.2	-8.6	-1.1	8.5	1.1
Sudan	0.7	-1.2	1.7	10.3	15.9
Tajikistan	-2.1	-5.7	0.2	-5.8	-2.9
Uzbekistan	-11.7	-19.8	-6.4	5.9	9.6
Yemen	6.0	-3.4	4.3	4.0	13.4
Emerging markets	**-1.2**	**-12.6**	**-3.1**	**1.7**	**3.6**
Egypt	-1.4	-29.1	-4.1	8.4	5.0
Jordan	2.6	-7.2	-3.9	-0.3	2.6
Lebanon	3.0	-10.7	-6.8	-4.1	2.2
Morocco	0.1	-1.0	-1.2	-1.8	1.2
Pakistan	-2.6	-0.1	-1.8	0.3	5.4
Tunisia	-0.6	-5.0	-3.4	-4.5	-0.8
Memorandum					
CCA	-5.8	-8.7	1.7	4.0	7.4
MENA	0.1	-9.6	-3.5	1.2	2.6
Of which					
GCC	0.9	-7.8	-5.4	-0.2	1.5
Maghreb	-4.6	-8.2	-2.7	-3.0	0.0

Sources: Data provided by country authorities; and IMF staff estimates.

Table 18. Gross Official Reserves

(In billions of U.S. dollars)

	Average 1998-2002	2003	2004	2005	2006	Proj. 2007
Middle East and Central Asia	**161.6**	**256.7**	**334.1**	**452.5**	**625.2**	**737.4**
Oil exporters	**121.4**	**191.8**	**262.3**	**374.3**	**529.2**	**628.0**
Algeria	12.9	32.9	43.1	56.2	74.4	93.1
Azerbaijan	0.6	0.8	1.1	1.2	2.5	4.7
Bahrain	1.2	1.4	1.6	1.9	1.9	2.0
Iran	12.5	24.7	33.3	46.3	62.0	76.8
Iraq	...	...	7.9	12.0	18.7	21.1
Kazakhstan	2.3	5.0	9.3	7.1	19.1	24.3
Kuwait	7.1	7.7	8.3	9.0	12.7	16.9
Libya	10.5	19.5	25.6	39.3	59.2	75.6
Oman	2.6	3.6	3.6	4.5	3.4	4.4
Qatar	1.3	2.9	3.4	4.6	5.4	6.5
Saudi Arabia[1]	45.2	59.8	87.9	153.2	225.2	255.2
Syria	12.5	18.5	18.6	17.9	16.5	15.1
Turkmenistan	...	...	...	...	...	...
United Arab Emirates	12.7	15.1	18.7	21.3	28.1	32.5
Low-income countries	**4.9**	**8.8**	**11.7**	**14.2**	**18.3**	**22.2**
Afghanistan	0.4	0.8	1.3	1.7	1.8	2.1
Armenia	0.4	0.5	0.6	0.8	1.1	1.3
Djibouti	0.1	0.1	0.1	0.1	0.1	0.1
Georgia	0.1	0.2	0.4	0.5	0.9	1.1
Kyrgyz Republic	0.3	0.4	0.5	0.6	0.8	0.9
Mauritania	0.1	0.0	0.0	0.1	0.2	0.2
Sudan	0.1	0.5	1.3	2.1	1.7	1.9
Tajikistan	0.1	0.1	0.2	0.2	0.3	0.3
Uzbekistan	1.2	1.7	2.1	2.9	4.7	6.1
Yemen	2.5	4.4	5.1	5.4	6.8	8.2
Emerging markets	**35.3**	**56.1**	**60.0**	**64.0**	**77.7**	**87.1**
Egypt	16.4	14.8	14.8	19.3	23.0	28.5
Jordan	2.4	4.7	4.8	4.7	6.2	6.1
Lebanon	5.9	10.3	9.6	9.6	11.4	10.4
Morocco	6.6	13.7	16.3	16.1	19.7	22.5
Pakistan	1.9	9.5	10.6	9.8	10.8	12.1
Tunisia	2.1	3.0	4.0	4.4	6.7	7.5
Memorandum						
CCA	5.1	8.6	14.2	13.2	29.3	38.6
MENA	154.6	238.6	309.3	429.5	585.1	686.7
Of which						
GCC	70.1	90.5	123.4	194.3	276.8	317.5
Maghreb	32.1	69.2	89.1	116.1	160.3	199.0

Sources: Data provided by country authorities; and IMF staff estimates and projections.

[1]Saudi Arabia Monetary Agency net foreign assets.

Table 19. Total Gross External Debt

(In percent of GDP)[1]

	Average 1998-2002	2003	2004	2005	2006	Proj. 2007
Middle East and Central Asia	**36.4**	**33.0**	**31.5**	**28.4**	**27.5**	**27.6**
Oil exporters	**26.3**	**21.6**	**21.8**	**21.0**	**21.6**	**23.3**
Algeria	49.6	34.3	25.7	16.8	4.3	3.9
Azerbaijan	18.6	19.7	18.5	13.1	10.0	10.3
Bahrain	54.0	51.2	62.1	53.8	51.2	49.3
Iran	10.0	12.7	14.3	12.9	11.7	11.0
Iraq	...	...	376.1	202.8	108.3	88.8
Kazakhstan	65.8	74.3	76.4	76.2	83.1	82.6
Kuwait	31.5	25.6	20.5	20.4	17.5	18.1
Libya	19.5	23.2	18.3	13.4	11.1	9.2
Oman	35.8	18.7	17.8	12.2	12.7	12.0
Qatar	101.3	58.3	49.3	40.7	40.8	39.0
Saudi Arabia	16.1	11.1	11.0	10.5	10.9	12.1
Syria	20.6	18.2	19.9	25.0	20.9	18.5
Turkmenistan	41.3	13.3	9.0	5.4	3.3	2.0
United Arab Emirates[2]	29.6	18.7	24.0	31.5	40.2	47.9
Low-income countries	**88.5**	**80.3**	**67.9**	**56.9**	**46.8**	**41.5**
Afghanistan	13.2	14.0	12.3	11.6	19.7	19.0
Armenia	43.8	39.1	33.1	22.4	18.8	17.5
Djibouti	53.0	66.8	68.4	61.8	58.3	60.3
Georgia	52.3	46.2	39.4	31.0	28.9	27.8
Kyrgyz Republic	117.5	103.5	95.3	82.1	73.0	64.7
Mauritania	237.4	223.2	210.8	132.9	90.7	91.1
Sudan	176.3	144.6	119.9	99.3	75.1	63.3
Tajikistan	110.9	83.5	55.3	50.4	40.9	49.4
Uzbekistan	32.2	41.9	36.0	30.2	24.5	20.5
Yemen	61.9	44.7	39.3	34.0	28.5	25.2
Emerging markets	**49.7**	**53.1**	**51.1**	**45.5**	**41.9**	**37.0**
Egypt	30.6	36.1	37.9	32.2	28.8	23.1
Jordan[3]	87.2	74.5	66.2	56.1	49.7	44.2
Lebanon	134.3	174.8	188.2	190.8	199.7	182.6
Morocco	51.6	38.4	33.2	27.8	25.1	23.4
Pakistan	44.9	40.4	34.0	30.7	27.7	26.0
Tunisia	61.5	70.5	68.9	62.6	59.4	55.5
Memorandum						
CCA	51.4	59.5	59.0	55.9	57.7	55.4
MENA	34.7	30.7	29.3	26.1	24.7	24.8
Of which						
GCC	26.5	18.5	19.0	19.5	21.9	24.7
Maghreb	46.6	40.9	34.1	25.5	17.8	16.6

Sources: Data provided by country authorities; and IMF staff estimates and projections.

[1]Nominal GDP is converted to U.S. dollars using period average exchange rate.

[2]Mostly foreign liabilities of U.A.E. commercial banks and private institutions that are more than offset by their foreign assets. As of 2003, deposits of nonresidents in U.A.E. banks constitute about 17 percent of foreign liabilities.

[3]In line with the authorities' reporting, excludes deposits of nonresidents held in the banking system, equivalent to about 7 percent of GDP as of end-2005.