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Regional Economic Outlook

Middle East and Central Asia

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The views expressed in this publication are those of the contributors, and not necessarily of the IMF. The team of principal contributors from the Middle East and Central Asia Department comprised David Owen, Sena Eken, Gene Leon, Mandana Dehghanian, Beata Lajch, and Fiorella Facello. In addition, country desk economists, research assistants, and mission chiefs provided important contributions.

Contents

Assumptions and Conventions

A number of assumptions have been adopted for the projections presented in the *Regional Economic Outlook: Middle East and Central Asia*. It has been assumed that established policies of national authorities will be maintained; that the average price of oil will be $68.5 a barrel in 2007 and $75 a barrel in 2008; and that the six-month London interbank offered rate (LIBOR) on U.S. dollar deposits will average 5.2 percent in 2007 and 4.4 percent in 2008. These are, of course, working hypotheses rather than forecasts, and the uncertainties surrounding them add to the margin of error that would in any event be involved in the projections. The 2007 data in the figures and tables are estimates. These estimates for 2007 and projections for 2008 are based on statistical information available through end-September 2007.

The following conventions are used in this volume:

- In tables, a blank cell indicates "not applicable" and ellipsis points (. . .) indicate "not available," and 0 or 0.0 indicates "zero" or "negligible." Minor discrepancies between sums of constituent figures and totals are due to rounding.

- An en dash (–) between years or months (for example, 2005–06 or January–June) indicates the years or months covered, including the beginning and ending years or months; a slash or virgule (/) between years or months (for example, 2005/06) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY2006).

- An em dash (—) indicates the figure is zero or less than half the final digit shown.

- "Billion" means a thousand million; "trillion" means a thousand billion.

- "Basis points" refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to ¼ of 1 percentage point).

As used in this report, the term "country" does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.

Further Information

This report on the *Regional Economic Outlook: Middle East and Central Asia* is available in full on the IMF's Internet site, www.imf.org.

Inquiries about the content of the *Regional Economic Outlook: Middle East and Central Asia* should be sent by mail or electronic mail (telephone inquiries cannot be accepted) to:

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Photo on opposite page:
Aerial view of the Palm Project in Dubai, United Arab Emirates—2004
By Jorge Ferrari/epa/Corbis

Recent Macroeconomic Developments and Prospects

Highlights

The Middle East and Central Asia region is undergoing a remarkable transformation, driven by rapid GDP growth, which is set to outpace global growth for the eighth year in a row. Helped by continuing high oil and non-oil commodity prices, and despite increased uncertainties in global financial markets, growth in the region is projected to stay in the 6–7 percent range in 2008. All parts of the region are doing well, with growth in the Caucasus and Central Asia projected to be especially strong at 11 percent, the fourth year of double-digit growth. Unemployment remains a big concern, however, especially in the Maghreb countries,[1] where more moderate growth of 5–6 percent is expected.

But inflation is on the rise in many countries. Fueled by strong demand growth, large external inflows, and generally accommodative monetary policies, average inflation in the region has picked up to 8–9 percent. For oil exporters, the increase has been particularly sharp, to nearly 10 percent in 2007, from 7 percent in 2006. In the context of pegged or heavily managed exchange rates, higher inflation is resulting in significant real exchange rate appreciation in many countries, as would be expected in response to rising oil prices. With no major changes in the policy stance envisaged, inflation is likely to ease only slightly in 2008.

As oil producers have ramped up their spending, saving in the region has declined. With imports of investment and consumer goods increasing rapidly, oil exporters' current account surplus has dropped to about 17 percent of GDP, from 21 percent in 2006, even though oil prices remain at record highs. Higher private and public sector spending has contributed to this. In the Gulf Cooperation Council (GCC) countries,[2] investment spending plans amount to at least $800 billion over the next five years, with major projects in the oil and gas sectors (funded largely by national oil companies), infrastructure (mainly under public-private partnerships), and real estate (financed primarily by the private sector).

However, governments in oil-exporting countries, which receive a large share of oil revenues, continue to manage their resources prudently by running sizable fiscal surpluses, only a little below the peaks recorded in 2005–06. Their saving from fiscal oil revenue is projected at about 42 percent in 2007–08, down from about 45 percent in 2005–06.

The recent global credit market turmoil has so far left the region's capital markets largely unscathed. Following the sharp equity market correction in 2006, most markets have stabilized or partially recovered their losses. The pace of initial public offerings (IPOs) has eased, but sukuk (Islamic bonds) issuance continues to grow. Signs of stress have, however, been evident in a tightening of liquidity and a widening of bond spreads of banks that have borrowed heavily from abroad, notably in Kazakhstan.

While the outlook remains positive, downside risks from the global economy have increased. If the credit crunch continues, growth in developed economies could slow sharply, with substantial spillovers to other parts of the world. Further spikes in oil or food prices would add to inflationary pressures and pose a dilemma for policymakers attempting to forestall an economic slowdown. Such a scenario would test the region's resilience, which has been strengthened in recent years by sound macroeconomic policies, huge increases in official reserves and other foreign assets, and reductions in debt.

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

[2]GCC countries comprise Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (U.A.E.).

Against this more uncertain background, the region faces important policy challenges to sustain its transformation and make greater headway in reducing poverty and unemployment. Chief among these are managing large foreign exchange inflows, solidifying fiscal and external sustainability in some countries, developing the financial sector, and promoting economic diversification, especially by creating conditions for a dynamic private sector.

Historically high foreign exchange inflows in recent years have been a critical factor underlying the region's greatly improved performance. The challenge now is to maintain this progress, while limiting the inflation that has accompanied it. Oil exporters should continue with their spending plans, which are comfortably affordable and will still allow them to build their defenses—in the form of net foreign assets—against possible external shocks, including oil price declines. With pegged exchange rates in many of these countries, open and flexible goods and labor markets, as well as expanding absorptive capacity, are the best means to limit inflation. For non-oil exporters, tighter fiscal policies and, where currencies are not pegged, less resistance to nominal exchange rate appreciation would be helpful.

Medium-term fiscal and external sustainability remains elusive in a few countries. In these countries, and in oil exporters facing declining oil revenues, fiscal reforms are a priority. Efforts to broaden tax bases and improve tax administration, complemented by spending restraint and elimination of subsidies, will help to set debt on a downward path while leaving more room for government spending to fight poverty.

Financial sector reforms are a priority for all countries in the region. The agenda is different in each country, but includes steps to strengthen banking sector soundness, enhance competition, and deepen financial markets.

Diversification is particularly important for countries facing rapidly declining oil reserves, and those that are vulnerable to fluctuating commodity prices. It will require further progress on a wide range of structural reforms to improve the business environment, boost productivity in the noncommodity sector, and encourage a dynamic private sector. The current strong macroeconomic environment provides an excellent opportunity to address these issues. ■

The October 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 and 2008. To facilitate the analysis, the 30 MCD countries covered in this report are divided into three groups: oil exporters, low-income countries (LICs), and emerging markets.[3] Countries are grouped based on the share of oil in total exports, per capita income, and access to international capital markets.

Background

The countries of the Middle East and Central Asia are undergoing a remarkable transformation of their role and significance in the world, with sharp increases in per capita incomes, enhanced economic integration, and significant changes in their economic systems.[4] The region's total population has doubled over the past quarter-century, reaching 650 million in 2007. There have been huge inflows of immigrant labor during this period, with the fast-growing economies of Qatar and the United Arab Emirates (U.A.E.) seeing their populations increase fourfold, fueling their strong growth but stretching infrastructural capacity. In the past decade, the transformation has gathered speed, with GDP growth outpacing population growth. As a result, GDP per capita has more than doubled since 1998, with the average for oil exporters reaching $6,600, following their relative stagnation in the 1990s.

An important driver of this transformation has been increasing integration—both within the region and with the rest of the world—as the economies of the region have become more open. Trade (exports plus imports) increased from 50 percent of the region's GDP in 1990 to 90 percent in 2007. At the same time, partly reflecting the impact of higher oil prices, the region's share of world exports doubled from 3 percent to 6 percent.

[3] *Oil exporters* comprise Algeria, Azerbaijan, Bahrain, Iran, Iraq, Kazakhstan, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Syria, Turkmenistan, and the 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.

[4] This transformation is portrayed with a series of photographs depicting then and now.

Regional cooperation has also improved significantly:

- Since signing the Unified Economic Agreement of 1981, the GCC countries have established a customs union with the aim to have a monetary union by 2010.
- In the Maghreb region, individual association agreements have been signed between the European Union and Algeria, Morocco, and Tunisia. Also, a number of initiatives for regional cooperation, trade liberalization, and financial integration are ongoing, designed to take advantage of complementarities in the economic structures of the five Maghreb countries.
- In Central Asia, several MCD countries are pursuing regional integration and cooperation in trade, energy, and transportation under the framework of the Central Asia Regional Economic Cooperation (CAREC) program.[5]

Diversification is another striking feature of the transformation. In the oil-exporting countries, particularly the GCC countries, the non-oil sector has been growing in importance. It now accounts for about one-half of GDP. Elsewhere, growth in the construction and services sectors has increased and the relative contributions of agriculture and industry have declined. The financial sector is growing rapidly in all countries and is increasingly contributing to private sector development: bank credit to the private sector has risen steadily to over 50 percent of GDP, while credit to the public sector has declined. At the same time, nonbank sources of financing for investment projects have expanded dramatically: equity markets have taken off, with market capitalization in the MENA[6] region up from 1 percent of GDP in 1990 to over 75 percent in 2006; foreign direct investment (FDI) and remittances are now much more prominent; and new financial instruments (including sukuk)[7] are complementing traditional instruments.

Market-oriented reforms and improvements in the business and investment climate are facilitating these changes. The role of market forces and the private sector in the economy is expanding. Governments are privatizing state-owned corporations in the banking, telecommunications, and utilities sectors. Foreign participation is on the rise, and public-private partnerships with foreign companies are becoming more common. Trade systems are opening and restrictions on foreign exchange transactions are being eased.[8] In financial markets, legislative, supervisory, regulatory, and payments system frameworks are being modernized. Laws relating to labor practices, foreign investment, corporate governance, and transparency are being updated. Tax and customs administration and public expenditure management are also being upgraded.

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[5] Participating countries comprise Afghanistan, Azerbaijan, the People's Republic of China, Kazakhstan, the Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan.

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

[7] Sukuk (Islamic bonds) are financial instruments that make payments to investors over the life of the bond, derived from the profits or returns of the underlying physical assets. They are similar to asset-backed bonds but do not pay a predetermined annual interest rate.

[8] The number of MCD countries that have removed foreign exchange restrictions on payments and transfers for trade in goods and services has increased from 7 in 1992 to 26 in 2007.

In response to these changes, development indicators are beginning to improve. Extreme poverty (people living on less than $1 a day) fell by 20 percent between 2002 and 2004. Over the past 15 years, life expectancy has increased from 64 to 70 years, while the total fertility rate has fallen by 1.8 births per woman, the largest decline of any region in the world.[9] Nearly 90 percent of children completed primary education in 2005, up from 77 percent in 1990. About 90 percent of the population now has access to electricity and improved water sources.

Generating sufficient jobs for the region's rapidly expanding labor force is still a major challenge. Despite the strong growth record in recent years, unemployment in the region has declined only slightly and remains above 10 percent in many countries.[10] A strong effort will be needed in the Maghreb region, where the unemployment rate, especially among the youth, is very high (Box 1). ■

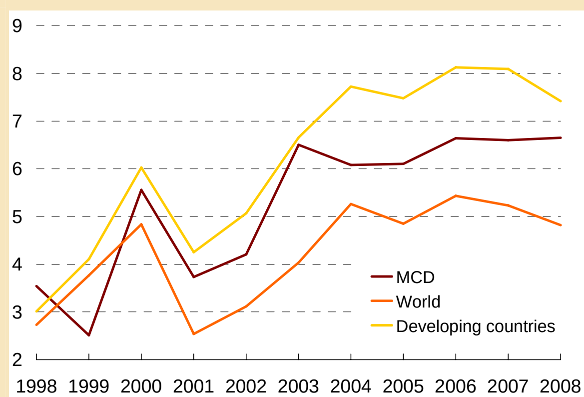
Recent Economic Developments

The MCD region continues to grow strongly in 2007, outpacing global growth for the eighth year in a row. Real GDP growth is estimated at 6½ percent, well above the average of just under 4 percent registered during 1998–2002 (Figure 1).[11] High oil and non-oil commodity prices, steady global growth, and sound policies in many MCD countries have underpinned this performance.

Figure 1. Global real GDP growth

MCD growth continues to outpace global growth.

(Annual change; in percent)



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

[9]As reported in the World Bank's *Word Development Indicators.*

[10]Data on unemployment are available for only 17 MCD countries (six oil-exporting countries, six LICs, and five emerging market countries).

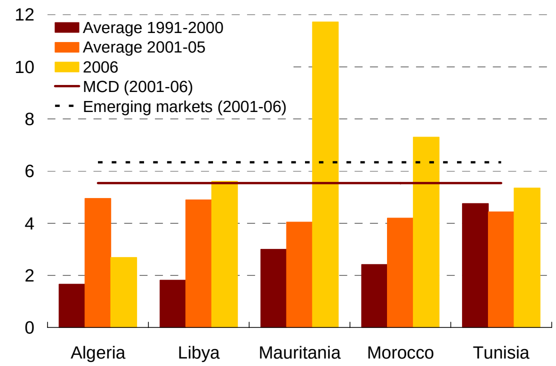
[11]Because of the large differences in the size of the individual country economies, weighted averages are dominated by the indicators of seven large economies, five of which are oil exporters. In the following analysis, both MCD-wide and country group averages are provided.

Box 1. Maghreb: Growth Performance and Remaining Challenges

Growth in the Maghreb has recently increased, resulting from significant progress in implementing reforms. Nonetheless, more needs to be done to create jobs for the rapidly growing labor force.

Despite differences in their pace and intensity, macroeconomic reforms undertaken by Algeria, Libya, Mauritania, Morocco, and Tunisia in recent years have put the five Maghreb countries on a higher growth path (Figure B1.1). All five countries have made significant efforts to liberalize their economies and foreign trade regimes and to strengthen their financial sectors. In addition, Algeria and Libya have succeeded in using their sizable oil revenues to accelerate economic growth, including in the non-oil sectors, and raise per capita GDP.

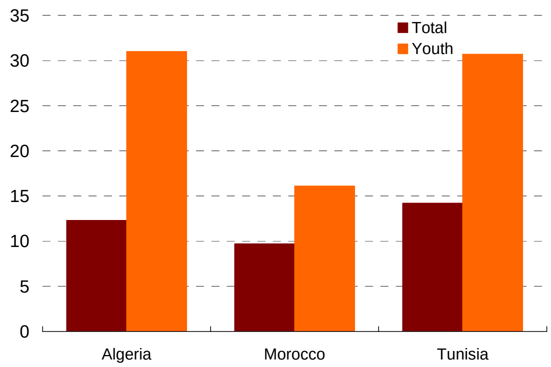
Figure B1.1. Real GDP growth
(Annual change; in percent)



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

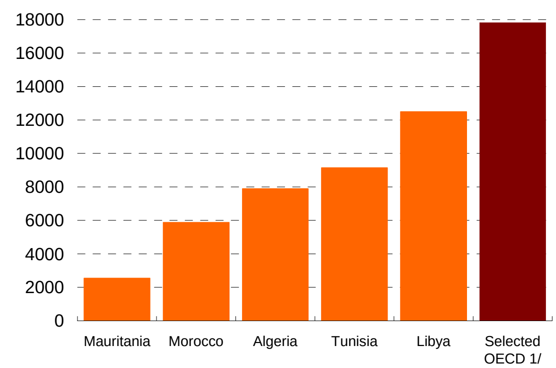
Nevertheless, challenges remain significant and vary with each country's stage of development. In all five countries, rapid growth of the labor force, in the presence of already-high unemployment, requires a sustained increase in job creation to absorb the large number of people entering the active population (Figure B1.2). In addition, Algeria and Libya have to make non-oil growth less reliant on public sector investment, which itself strongly depends on oil revenues. Mauritania is still a low-income country that has only recently started on a reform path. All five countries must further raise growth to bridge the income gap that separates them from the average lower-tier OECD countries (Figure B1.3).

Figure B1.2. Unemployment rates, 2006[1]
(In percent)



Sources: Data provided by authorities; and IMF staff calculations.
[1]Official unemployment data are not available for Libya and Mauritania.

Figure B1.3. Per capita GDP in PPP terms, 2006
(In U.S. dollars)

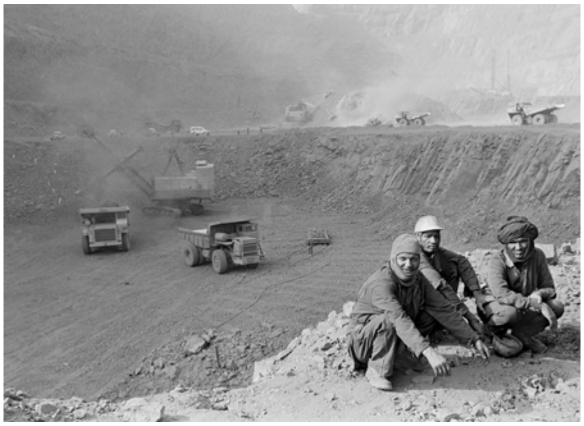


Sources: Data provided by authorities; and IMF staff calculations.
[1]A simple average of per capita GDP (in PPP terms) of the Czech Republic, Hungary, Mexico, Poland, and the Slovak Republic.

Box 1 *(concluded)*

In order to spur growth rates, reduce unemployment, and raise living standards, the Maghreb countries need to base their strategy on five key pillars.

- *Continued macroeconomic stability*. Recent experience in the Maghreb has confirmed that a sustainable evolution of fiscal, external, and monetary indicators, particularly relatively low inflation, helps growth by increasing private sector confidence.
- *Further strengthening of the financial sector* to promote private-sector-led investment and growth. In most Maghreb countries, competition in the banking system should be fostered by reducing state ownership of banks and lifting restrictions on foreign bank entry; financial markets need to be deepened and greater participation of nonbank financial institutions promoted; financial sector oversight should be strengthened; and financial sector infrastructure needs to be upgraded through a strengthening of payment systems, accounting and auditing practices, transparency and governance, and the legal and judicial framework.
- *Acceleration of the tax reform*. The tax systems in the Maghreb countries are complex, with multiple tax rates and widespread exemptions. Simplifying the tax system will help reduce tax evasion. Removing exemptions will generate significant revenue and allow for a reduction in tax rates. Such reforms will also improve the business climate by creating a level playing field for all investors.
- *Further improvement in the business climate*. In particular, the legal environment could be strengthened to better protect property rights and enforce commercial laws in a timely manner; public administration efficiency could be promoted by further cutting red tape and simplifying the process of starting a business; and rigidities in labor markets could also be eased further.
- *Greater integration with other Maghreb economies and the rest of the world*. Regional integration would create a large market that would attract more investment and promote cooperation in other areas. It would also maximize the benefits of trade integration with the European Union. At the same time, Maghreb countries could promote multilateral trade by further simplifying their most favored nation tariffs and lowering their rates. ■



Iron mines in Tiris (Tiris Zemmour, Mauritania—1977)
Photo by Jacques Pavlovsky/Sygma/Corbis

Loading the train in the mine (Zouerate, Mauritania—2004)
Photo by Atlantide Phototravel/Corbis

Among MCD countries, growth remains at about the same pace as in 2006 in oil-exporting economies and LICs, but has eased in emerging markets (Figure 2).

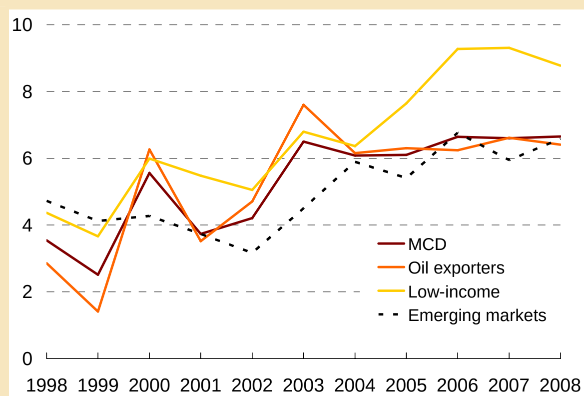
- *Oil-exporting countries* are expected to grow by about 6½ percent. Non-oil activity has underpinned overall GDP growth in Algeria, Bahrain, Kazakhstan, and the U.A.E., chiefly from booming construction activity; in Kuwait from financial services; and in Saudi Arabia from manufacturing, construction, and financial services. Expansion in the oil and gas sector has been the driving force in Azerbaijan and Qatar. Oil GDP contracted in Kuwait, Saudi Arabia, and Syria.

- *LICs* are expected to record another year of strong growth exceeding 9 percent. Growth is running well above the LICs' average in Afghanistan (from a rebound in agriculture and increased activity in construction), Armenia (from domestic demand buoyed by construction investment and remittance inflows), Georgia (from FDI-financed investments), and Sudan (from higher oil production).

- *Emerging market countries* are estimated to grow at just under 6 percent, about 1 percentage point less than in 2006. Growth has picked up further in Tunisia (owing to a rebound in agricultural output, robust expansion in manufacturing, and the vitality of the services sector) and in Egypt (on account of strong growth in manufacturing, services, and construction), and has remained strong in Jordan (supported by domestic demand and FDI projects) and Pakistan (owing to a good performance in agriculture). In Lebanon,

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

(Annual change; in percent)



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

however, the adverse security and the political climate have dampened the pace of recovery, while in Morocco a sharp decline in agricultural output has lowered overall growth considerably despite continuing strong momentum in the nonagricultural sector.

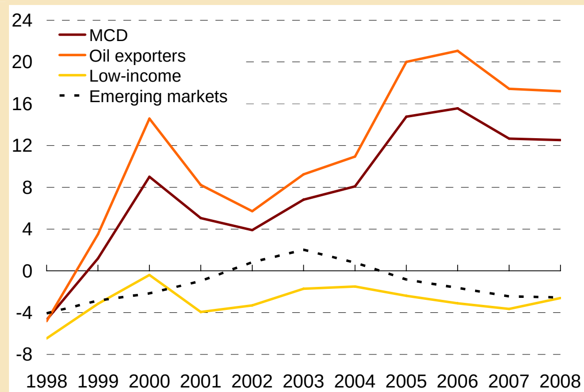
By geographical region, the Caucasus and Central Asia (CCA)[12] has again had the highest growth rate—the third consecutive year of double-digit growth. In these countries, output is estimated to expand by an average of 13 percent in 2007, driven by high oil and other commodity prices,[13] increased exports to China and Russia, and vibrant domestic demand partly financed by remittances. Countries in the MENA region are expected to maintain their growth rate at almost 6 percent, with the Maghreb economies growing at close to 5 percent.

Higher spending by oil producers has translated into lower savings in the region in 2007 (Box 2). Despite continued strong oil prices, the current account surplus for the MCD countries is expected to fall from about 16 percent of GDP ($266 billion) in 2006 to about 13 percent of GDP ($250 billion) in 2007 (Figure 3). The cumulative surplus since end-2002 will then reach almost $900 billion. While nearly all oil-exporting countries have consistently run surpluses, most emerging markets and low-income countries have recorded deficits, even though in some oil-importing countries the adverse impact of higher oil prices on the current account has been partly offset by increases in non-oil commodity prices, especially metals (Figure 4), and remittances. Remittances as a percent of GDP are in double digits in Jordan and Lebanon among emerging market countries, and in the Kyrgyz Republic and Tajikistan among low-income countries.

Figure 3. External current account balance

Increased spending is reducing current account surpluses of oil exporters.

(In percent of GDP)

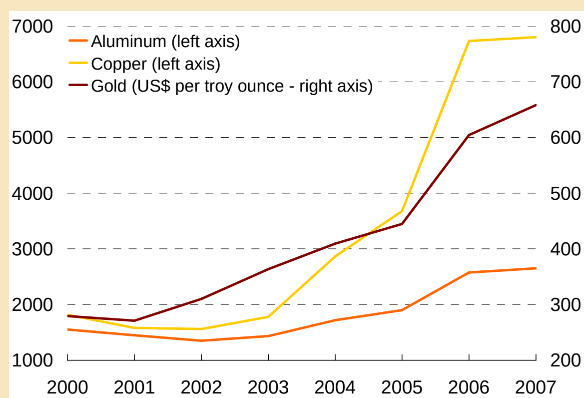


Sources: Data provided by authorities; and IMF staff estimates and projections.

Figure 4. Non-oil commodity prices

Metal prices have remained high.

(In U.S. dollars per metric ton; unless otherwise indicated)



Source: IMF, *World Economic Outlook*.

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

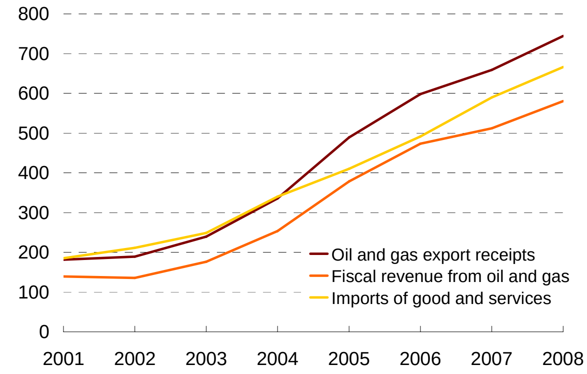
[13]In particular, prices of aluminum (Tajikistan), copper (Armenia and Georgia), cotton (Tajikistan, Turkmenistan, and Uzbekistan), gold (Armenia, Kazakhstan, the Kyrgyz Republic, and Uzbekistan), and ferrous and scrap metals (Georgia).

Box 2. Oil Developments—An Update

With the oil boom continuing, the oil and gas income of Middle East and Central Asian countries continues to rise. A massive program to undertake much needed upgrading of infrastructure and social spending is now under way. This is being reflected in a narrowing of the region's external surpluses.

After topping an estimated $650 billion this year, the region's oil and gas export receipts look set to rise to near $750 billion in 2008 (Figure B2.1). This represents an almost fourfold increase from the annual levels at the start of the decade. Similarly, on the fiscal side, government revenue from oil and gas is now estimated at $510 billion for 2007, rising to almost $580 billion in 2008. The dramatic increase in oil income has come about from sharply higher oil prices, which climbed from under $25 a barrel in 2001–02 to an estimated average of $68.5 in 2007 and, based on futures prices prevailing at present, almost $75 next year.

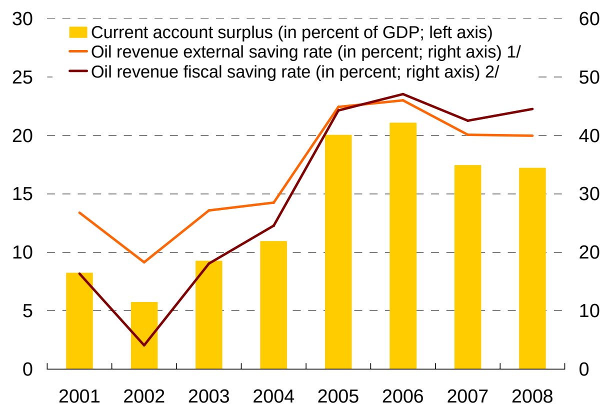
Figure B2.1. Oil income and imports
(In billions of U.S. dollars)



Sources: Data provided by authorities; and IMF staff estimates and projections. Data for 2001–03 exclude Iraq.

The increased income has allowed a marked acceleration in spending to implement major infrastructure and social investment plans. As a result, imports have risen rapidly and, for both 2007 and 2008, are projected at levels close to the countries' total oil and gas exports. The corresponding reduction in the external current account surplus of oil exporters—from 21 percent of total regional GDP in 2006 to 17 percent in 2007–08 (Figure B2.2)—also constitutes a significant contribution to narrowing global current account imbalances. Furthermore, the increased revenue helped some countries to significantly reduce their debt.

Figure B2.2. Current account and oil income saving



Sources: Data provided by authorities; and IMF staff estimates and projections. Data for 2001–03 exclude Iraq.
[1]Ratio of external current account surplus to oil and gas exports, in percent.
[2]Ratio of overall fiscal surplus to fiscal oil and gas revenue.

Even with the increased spending, the overall financial position of the region as a whole remains very comfortable. The average external saving rate of oil income—measured as the ratio of the countries' aggregate current account surplus to their oil and gas export receipts—is still close to 40 percent. Similarly, the oil exporters continue to save about 42 percent of their fiscal oil and gas income. Thus, the management of oil revenue by Middle East and Central Asian oil-exporting countries, in aggregate terms, remains prudent and they look set to comfortably meet their envisaged investment plans while continuing to set aside sizable resources for the future. ■

- The current account surplus of *oil-exporting countries* is estimated at about 17 percent of GDP ($264 billion) in 2007, down from 21 percent ($275 billion) in 2006. With average oil prices estimated to have increased by almost 7 percent between 2006 and 2007, this fall reflects substantial increases in spending on investment and consumer products, reflected in another year of import growth of close to 20 percent.
- Current account positions have deteriorated in 2007 in most *emerging market countries*. Overall, the deficit of this group of countries has widened to 2½ percent of GDP, from 1½ percent in 2006, with particularly large deficits continuing in Jordan and Lebanon.

Oil field worker (Baku, USSR—1933)
Photo by Bettmann/Corbis

Workers in the oil field (Baku, Azerbaijan—2005)
Photo by Grigory Dukor/Reuters/Corbis

- The current account deficit of *LICs* is projected to widen to about 3½ percent of GDP in 2007. Strong import growth—driven by buoyant domestic demand—is the main factor behind increased deficits in most countries. However, rising commodity and noncommodity exports and remittances have driven the already very large surplus even higher in Uzbekistan, while a recovery in oil production is contributing to a lowering of the deficit in Sudan.

FDI inflows to MCD countries have quadrupled since 2002 and are expected to top $80 billion in 2007. Saudi Arabia and the U.A.E. are the largest recipients of gross inflows, accounting for two-fifths of FDI in the region. Net direct investment flows have also increased but amount to about one-half of gross inflows, owing to large investments abroad by Saudi Arabia and the U.A.E. On a net basis, the largest recipients of FDI are Egypt, Kazakhstan, Pakistan, and Sudan, which together account for over two-thirds of the region's net inflows.

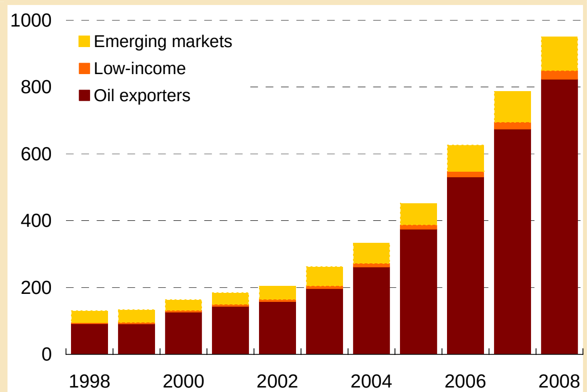
Net financial outflows (portfolio investments, loans, deposits, and trade credits) have tripled since 2002 to an estimated $130 billion in 2007. Almost all of these outflows are from oil-exporting countries—in particular Kuwait, Qatar, Saudi Arabia, and the U.A.E.—which are investing part of their surging oil revenues abroad, in some cases through sovereign wealth funds (e.g., the Abu Dhabi Investment Authority and the Kuwait Investment Authority),[14] to limit domestic inflationary pressures and preserve assets for future generations. The largest net financial inflows were recorded in Sudan for large foreign-financed infrastructure projects, and in Pakistan in the form of portfolio investments.

Large current account surpluses and growing FDI have resulted in a substantial increase in official international reserves. Gross official reserves of MCD countries have increased almost fourfold in the last five years, and are set to reach almost $790 billion at end-2007, $160 billion higher than at end-2006 (Figure 5). Reserves have increased in all country groupings, but oil exporters dominate the picture: their reserves are expected to reach $675 billion by end-2007. In LICs, higher reserves are mainly accounted for by increases in Uzbekistan, reflecting its exceptionally strong current account, and in Yemen, reflecting also high oil receipts. In emerging market countries, capital inflows, official borrowing, and privatization receipts have more than offset current account deficits and allowed for a steady accumulation of reserves.

Government savings have declined in 2007, led by a fall in the surplus of oil exporters. Nonetheless, the region will continue to run a sizable fiscal surplus, estimated at about 4½ percent of GDP (Figure 6). Ratios of

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

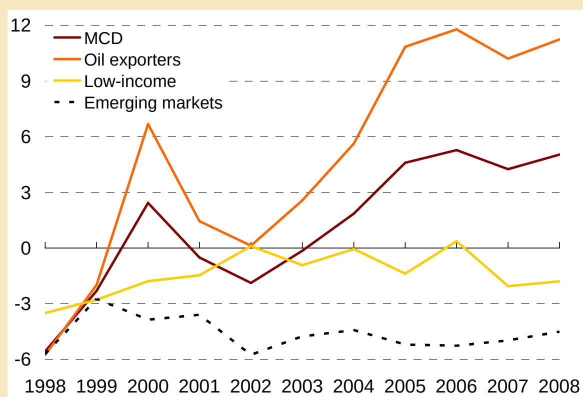
(In billions of U.S. dollars)



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

Figure 6. Central government fiscal balance
Fiscal surpluses have declined in 2007.

(In percent of GDP)



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

[14] Sovereign wealth funds are investment vehicles that manage government foreign exchange assets, typically separately from the management of official reserves. The funds invest in more diversified, higher-yielding portfolios than the normal reserve portfolios of central banks.

government debt to GDP have continued to decline for all groupings, reflecting fiscal consolidation in some countries and, in others, the drawdown of privatization receipts (Morocco) and earmarked oil revenues (Algeria) to retire debt (Figure 7).

- Many *oil exporters* have stepped up their spending from oil revenue. With central government expenditure increasing almost 20 percent, the average saving rate of fiscal oil revenue—the ratio of the overall fiscal balance to fiscal oil receipts—is estimated to have fallen from about 45 percent in 2005–06 to a still-comfortable 42 percent in 2007.

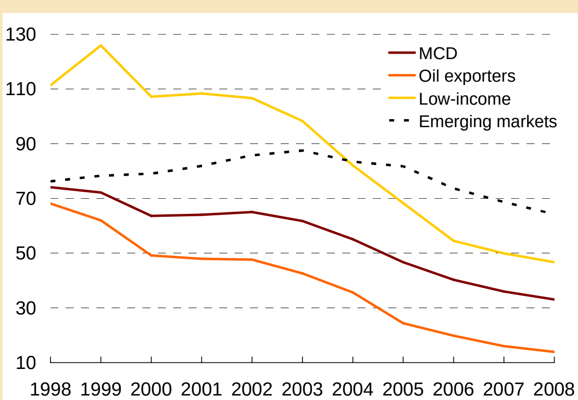
- Spending in *LICs* has also increased further in 2007. A very large increase in spending in Tajikistan is mainly related to major foreign-financed investment projects. In Sudan, however, after large increases in recent years, spending has been cut back in an effort to rein in the widening fiscal deficit.

Inner harbor of Bizerte (Bizerte, Tunisia—1894)
Photo by William Henry Jackson/Corbis

Aerial view of Bizerte (Bizerte, Tunisia—1998)
Photo by Yann Arthus-Bertrand/Corbis

Figure 7. Total government debt
Debt continues to decline.

(In percent of GDP)



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

- In the *emerging market countries,* spending as a percent of GDP has dropped on average. In Egypt and Tunisia the declines are sizable, but are partly offset by a substantial increase in expenditures on reconstruction in Lebanon.

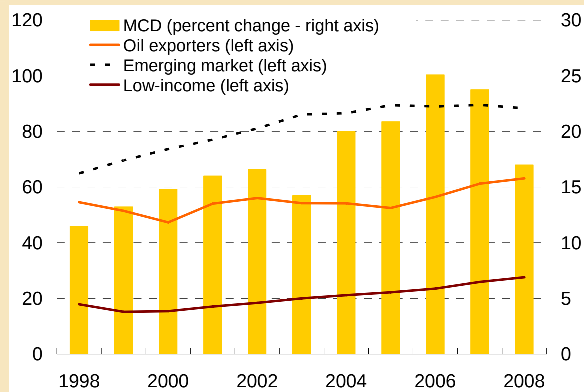
The government revenue–to-GDP ratio for the region is estimated to have decreased in 2007, reversing the previous year's increase. For oil producers, the decline reflects various factors, including slower growth in export receipts relative to GDP and exchange rate appreciation. Among LICs, significant drops have occurred in Mauritania and Yemen owing to falling oil revenues, while large increases have resulted in Georgia from further improvement in tax administration, and in the Kyrgyz Republic and Tajikistan owing to a surge in imports. For emerging market countries, the previous year's revenue gains have largely been sustained, with a further uptick in Pakistan and a recovery in Lebanon from the effects of the war in 2006.

Average monetary growth has slowed in MCD countries in 2007, although broad money continues to grow faster than GDP in oil exporting countries and LICs (Figure 8). The slower monetary growth reflects both a slower pace of official reserves accumulation and a reduction in overall credit growth, underpinned by policy tightening in some countries in response to concerns about inflation. In countries where government oil receipts are primarily invested overseas, including through sovereign wealth funds, these inflows have little impact on domestic monetary developments.

While credit to government has declined, the ratio of private credit to GDP continues to rise (Figure 9). Among oil exporters, credit-to-GDP ratios have jumped to finance real estate and consumption goods, particularly in Kazakhstan, Kuwait, and Qatar. Among LICs, investment project financing has helped raise private sector credit–to-GDP ratios in the Kyrgyz Republic and Sudan. In emerging markets, credit-to-GDP ratios have risen significantly in Jordan,

Figure 8. Monetary developments
Monetization has increased.

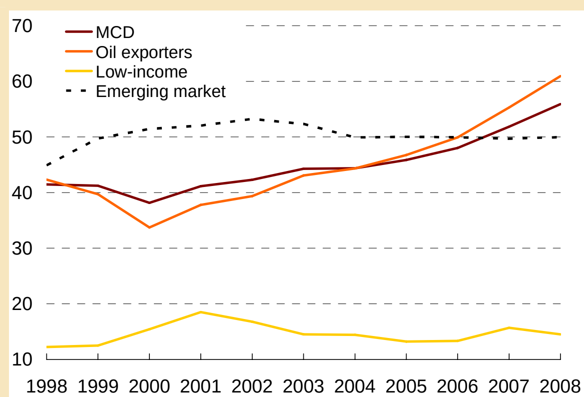
(In percent of GDP; unless otherwise indicated)



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

Figure 9. Credit to the private sector
Credit-to-GDP continues to rise.

(In percent of GDP)



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

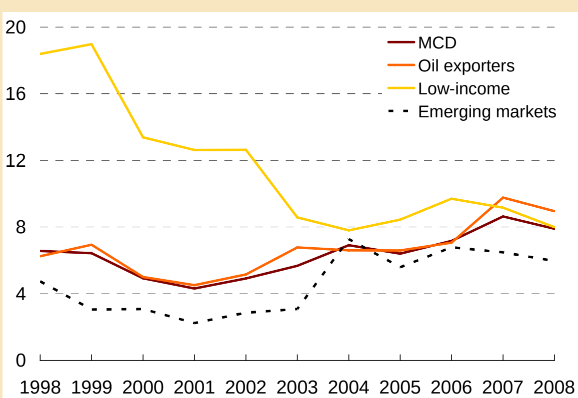
Lenin Square (Tbilisi, Georgia—1993)
Photo by Sergo Edisherashvili

Freedom Square (formerly Lenin Square) (Tbilisi, Georgia—2006)
Photo by Guram Tsibakhashvili

Figure 10. Consumer prices

Inflationary pressures are continuing to increase in oil exporters.

(Annual change; in percent)



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

reflecting a surge in investment in the industrial, real estate, and tourism sectors, and in Morocco, owing to increased confidence in the economy and the authorities' efforts to deepen financial intermediation.

Average inflation in MCD countries has picked up and is expected to be about 8½ percent in 2007 (Figure 10). This largely reflects rising inflation in oil-exporting countries, where average inflation is expected to jump to 10 percent, from 7 percent in 2006. Azerbaijan, Iran, Libya, and Qatar could face double-digit inflation, mostly reflecting pressures from increased domestic demand, including from hikes in public sector wages, and supply constraints. In Iraq, inflation has halved, reflecting the gradual appreciation of the exchange rate and control of government spending, but is still high at about 30 percent. Where inflation has been low, such as in Saudi Arabia, Kuwait, and

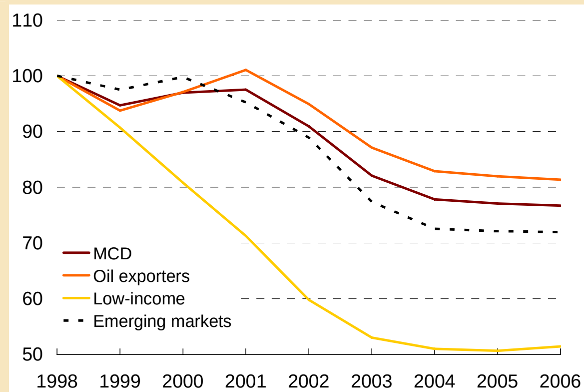
Bahrain, this has been because of very open trade systems, flexible labor markets, less binding capacity constraints, and the limited pass-through of higher fuel costs to domestic prices. In LICs, underlying inflation has declined mainly because of monetary policy tightening, although surging international wheat prices have led recently to inflation spikes in several countries. Similarly, in most emerging market countries, tighter monetary and, to a lesser extent, fiscal policies have helped contain inflation.

Real effective exchange rates continued to appreciate in all MCD country groupings through 2006 (Figures 11 and 12). Among oil exporters, Iran, Qatar, and Syria (all with pegged regimes)[15] have had double-digit cumulative real appreciation during 2005–06, mainly because of high inflation; in Azerbaijan, the large real appreciation during the same period was attributable to a combination of nominal appreciation and high inflation. Among LICs and emerging markets, real appreciation in 2005–06 was the greatest in Armenia, Egypt, Sudan, and Yemen. 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.

Figure 11. Nominal effective exchange rates

Nominal effective exchange rates were broadly stable.

(Index 1998 = 100; increase indicates appreciation)

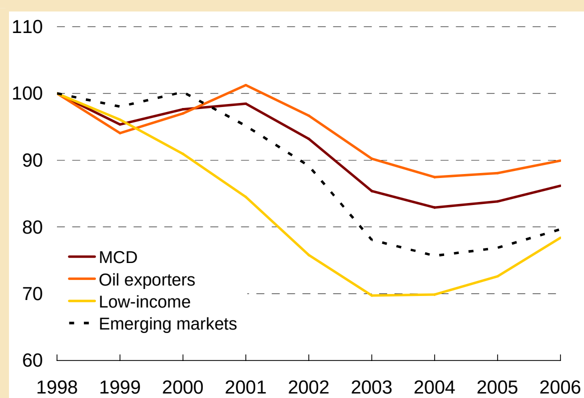


Source: IMF Information Notice System.

Figure 12. Real effective exchange rates

Real effective exchange rates have continued to appreciate.

(Index 1998 = 100; increase indicates appreciation)



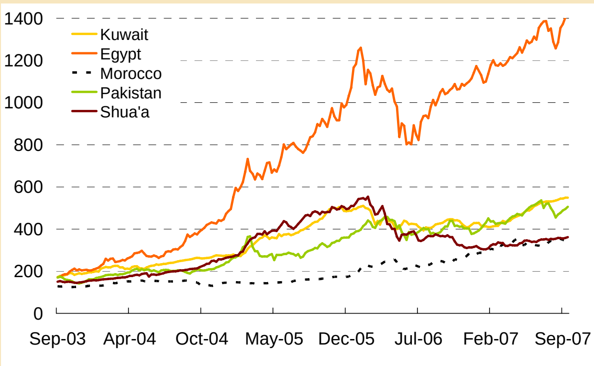
Source: IMF Information Notice System.

[15]Following the de facto exchange rate regime classification in the IMF's *Annual Report on Exchange Arrangements and Exchange Restrictions* (AREAER, 2007), countries are classified into *fixed regimes* (Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Sudan, Syria, Turkmenistan, the U.A.E., Uzbekistan and Yemen) and *adjustable regimes* (Afghanistan, Algeria, Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, and Tunisia). Adjustable regimes comprise crawling pegs, managed floating with no predetermined path for the exchange rate, and independent floating.

Figure 13. Selected stock market indices

Stock markets grew moderately in 2007.

(Index December 2002 = 100)



Source: Bloomberg.

Loading containers at the Port of Djibouti (Djibouti—2007)

Photo courtesy of Djibouti Port Authorities

Stock markets in the MCD region started recovering in 2007 and so far have not been significantly affected by the recent global financial market turmoil. Following an unprecedented boom during 2003–05, the equity markets in the Middle East, particularly in GCC countries, underwent a major correction in 2006, which brought market valuations generally back to average levels in relation to earnings. Since then, markets have stabilized and all equity markets in the region (except Saudi Arabia) have had moderate to strong growth. During the first nine months of 2007, the Shua'a Capital Arab Composite Index rose 15 percent, and there were significant gains recorded in Egypt, Kuwait, Morocco, and Pakistan (Figure 13).[16] The growth in the equity markets reflected continuing high levels of liquidity, and positive investor sentiment resulting from strong economic fundamentals, effective prudential regulations, and improved assessments from rating agencies. Although IPOs have not been as vigorous as in previous years, sukuk (Islamic bond) issues continued to grow as instruments for financing investment projects.

However, there were signs of stress in other parts of the financial systems in August 2007 from the financial crisis that originated in the United States subprime credit market. In the emerging markets of MCD, bond spreads increased and some banks (e.g., in Kazakhstan) found it more expensive to raise funds, increasing their rollover risk from external borrowing (Box 3). In contrast, in the GCC, strong economic fundamentals, high liquidity, and commercial banks' low aggregate exposure to the U.S. subprime instruments helped contain the impact of the global credit squeeze. ■

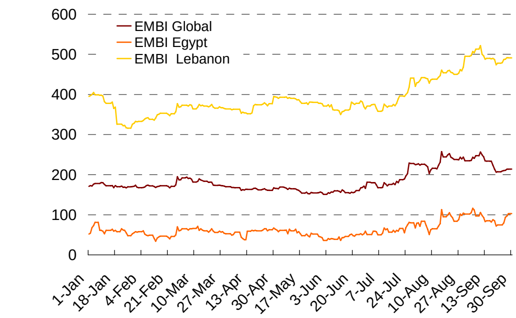
[16]The Shua'a index includes the GCC countries, Egypt, Jordan, Lebanon, Morocco, Tunisia, and West Bank and Gaza.

Box 3. Regional Impact of the 2007 Global Credit Squeeze

The recent credit market turmoil has highlighted potential vulnerabilities to reevaluation of risks and sudden stops in capital flows.

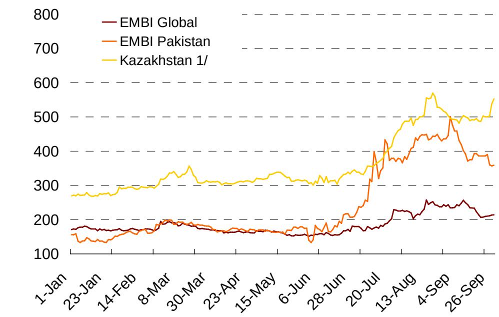
A repricing of credit risk for asset-backed securities (ABS)[1] collateralized by subprime loans triggered a liquidity squeeze that resulted in significant stress in global financial markets. Although the impact of the turmoil was centered in developed country financial markets, some emerging markets started to be affected as more risky positions were closed and emerging market bonds were sold to generate required liquidity. As a result, spreads on sovereign bonds rose significantly (Figures B3.1 and B3.2), and some markets experienced liquidity shortages and difficulty in rolling over short-term financing.

Figure B3.1. Emerging markets bond index spreads
(In basis points)



Source: Bloomberg.

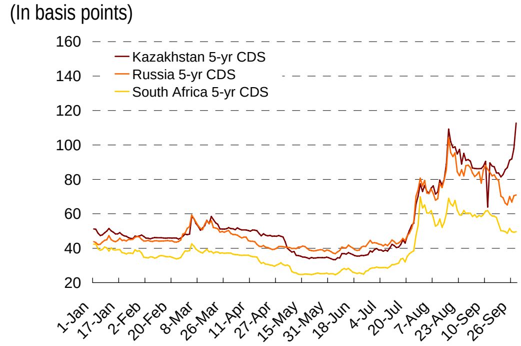
Figure B3.2. Emerging markets bond index spreads
(In basis points)



Source: Bloomberg.
[1]Kazkommertz Bank Bond Spread (2015).

In the case of Kazakhstan, whose banks have heavy foreign borrowing, the liquidity squeeze has also led to sharp increases in credit default swap spreads and domestic interest rates (Figures B3.3 and B3.4).

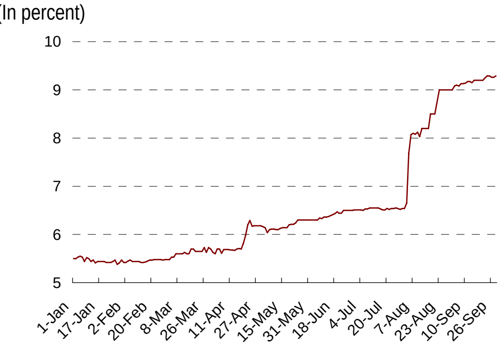
Figure B3.3. Credit default swap (CDS) spreads[1]
(In basis points)



Source: Bloomberg.

[1]A credit default swap is a financial instrument resembling an insurance policy that allows a debt owner to hedge against credit risks (e.g., a failure to pay).

Figure B3.4. Kazakhstan: interbank interest rate
(In percent)



Source: Bloomberg.

The extent and the speed with which the recent turmoil spread has highlighted the interconnectedness of the global financial system and the vulnerability of emerging markets in MCD that are reliant on external financing from private sources to a reduction in the appetite for risk. ■

[1]ABS are instruments issued against expected scheduled cash flows from other underlying assets (e.g., mortgages and car loans).

Automobile manufacturing (Tehran, Iran—2007)
Photo by Abedin Taherkenareh/epa/Corbis

Bread shop (Mashad, Iran—1960s)
Photo by Roger Wood/Corbis

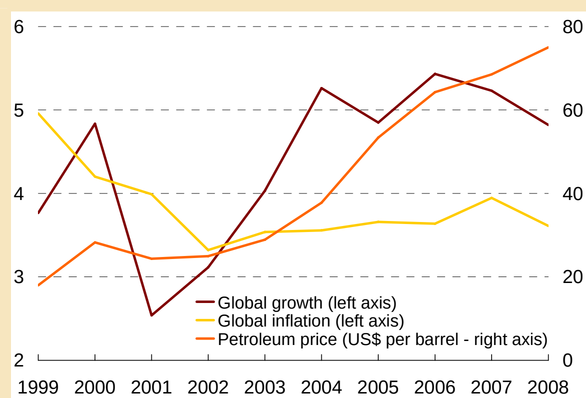
Economic Outlook

World economic outlook[17]

Global growth remains strong, but the recent financial turmoil is expected to dampen its momentum. World output continued to expand at above 5 percent in the first half of 2007, with growth in emerging economies remaining buoyant and increasingly becoming a key driver of global expansion. Global growth is now projected at 5¼ percent in 2007 and 4¾ percent in 2008 (Figure 14). However, uncertainty about the global outlook has increased. These projections assume that normal market liquidity in key financial markets will be gradually restored in the coming months, spillovers through trade and financial linkages will be contained, and the improved pricing of risks, through wider spreads on riskier assets, will be maintained.

Figure 14. Global outlook
Growth and inflation are projected to ease.

(Annual change; in percent, unless otherwise indicated)



Source: IMF, *World Economic Outlook*.

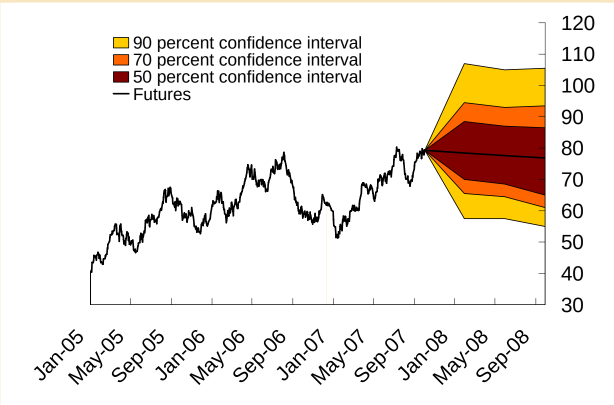
[17]Based on the IMF's October 2007 *World Economic Outlook*.

Crude oil prices rebounded strongly to a new record high of over $80 a barrel in September 2007, as a result of strong demand and supply tightness in the U.S. arising from rapidly falling inventories coupled with weather-related disruptions. Reflecting lower prices earlier in the year, the average petroleum spot price (APSP)[18] is projected to average close to $68.5 a barrel in 2007, rising to $75 a barrel in 2008 (Figure 15). With strong demand growth, metals prices have also remained high in 2007, while food prices have been boosted by poor weather conditions in a number of countries, as well as the rising use of corn and other food items for biofuel production. Most non-oil commodity prices are projected to retreat in 2008 from their recent highs.

Reflecting higher oil and food prices, global headline inflation has risen in recent months. Core inflation has risen also, but remains contained, after central banks around the world pushed up policy rates in the first half of 2007 to head off inflationary pressures. Global inflation is projected at almost 4 percent in 2007, declining to about 3½ percent in 2008.

Figure 15. Brent crude oil prices
Prices are projected to remain high.

(In U.S. dollars per barrel)



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

Financial market conditions have tightened and become more volatile since July 2007. Expectations of strong global growth and further increases in policy interest rates contributed to a rise in long-term government bond yields through June, while equity prices rose to record highs around the world. Since then, global financial markets have been under stress. The problems that started in the U.S. subprime mortgage market have spread, leading to a repricing of credit risk and heightened market volatility. As a result, spreads have widened, including on emerging market sovereign bonds. Central banks have injected liquidity to ease pressures in the interbank markets and, in the United States, the federal funds rate was reduced in September. Equity markets have risen from their mid-August lows, but remain volatile.

The balance of risks to global growth has decidedly moved to the downside. The principal risk is that dislocations in key financial markets will intensify or be prolonged. If the financial market strains do not ease in the coming months, or if tight credit conditions and reduced risk appetite persist, confidence could be undermined and lead to a sharp slowdown, in particular in the United States and Europe, with larger spillovers through trade and financial linkages in other parts of the world. In addition, in the oil market, supply shocks or heightened geopolitical concerns could lead to further price spikes that could translate into higher headline inflation. Meanwhile, some progress has been made toward reducing the risks of a disorderly unwinding of global imbalances, which are showing signs of stabilizing, albeit at a high level. However, protectionist pressures in industrial countries are a continuing concern. ■

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

Domes and minarets (Baghdad, Iraq—about 1950s)
Photo by Alice Schalek/Hulton Deutsch Collection/Corbis

Outlook for the MCD region

The MCD region is set to maintain the strong relative growth performance of recent years. Based on the global scenario described in the previous section, the region's real GDP is projected to continue growing at about 6½ percent in 2008, well ahead of world growth of less than 5 percent.

- GDP growth in *oil-exporting countries* is expected to remain at about 6½ percent, continuing the strong growth since 2003. Rising oil and gas output, investment projects in non-oil sectors, and increased domestic consumption associated with higher income and wealth are the main drivers of domestic demand. In Kazakhstan and Turkmenistan, strong growth is projected in non-oil GDP, while double-digit oil GDP growth is likely to contribute over two-thirds of the strong performance in Azerbaijan and Qatar.

- *LICs* are expected to continue growing at well above the MCD and developing country averages, although slightly below the 9 percent rate estimated for 2007. Growth rates of 8 percent or higher are projected for Afghanistan (owing to a rebound in agriculture and sustained activity in construction and services), Armenia (owing to continued buoyancy in the construction and services sectors and a recovery in exports), Sudan (because of increased oil production and exports), and Tajikistan (driven by externally financed investment projects).

- *Emerging market countries'* growth is projected to pick up again in 2008, returning to the 6½–7 percent range recorded in 2006. This group's performance will be dominated by Egypt, with continuing strong growth across all sectors. Lebanon's recovery is expected to gather pace, provided political tensions are resolved, while growth in Morocco should rebound strongly as agricultural production returns to normal levels.

Inflation is expected to ease across the region but would remain relatively high, averaging 8 percent. Among oil exporters, where inflation

Kadoumia Mosque (Baghdad, Iraq—early 2000s)
Photo by Nico Tondini/Robert Harding World Imagery/Corbis

is projected to stay at about 9 percent, real exchange rate appreciation in response to higher oil prices is expected to continue in a number of countries. Double-digit inflation is projected in Azerbaijan (mainly resulting from fiscal expansion), Iran (from fiscal expansion and monetary growth), and Qatar (from supply bottlenecks and strong domestic demand). Also, despite the very sharp decline in 2007, inflation in Iraq could remain in double digits owing to continued security problems and shortages of key commodities. In oil-exporting countries with relatively flexible labor and factor markets, inflation should remain low. Among *LICs*, policy tightening is projected to bring inflation down in Mauritania, Sudan, and Uzbekistan, but in Armenia and Tajikistan inflation is moving upwards. Further moderate declines in inflation are projected for most emerging market countries.

With imports continuing to rise rapidly, the region's current account surplus is projected to hold steady, despite higher oil prices. The MCD region's surplus is likely to remain at about 12½ percent of GDP in 2008, 3 percentage points lower than in 2006. While low-income and emerging market countries will continue to run modest deficits, they should be more than financed by strong foreign investment inflows. Gross official reserves of all country groupings should therefore continue to rise.

- Despite the significantly higher average oil price projected for 2008, the current account surplus of *oil-exporting countries* is expected to decline marginally to just over 17 percent of GDP ($300 billion). This largely reflects the continued ramping up of imports for investment projects and for consumption goods. The cumulative current account surplus is projected to reach about $1.2 trillion for 2003–08, with GCC countries accounting for three-fourths of the total.

- In *emerging market countries,* the current account deficit is projected to hold steady at about 2½ percent of GDP, with continued large but declining deficits in Jordan and Lebanon. The current account deficit is expected to stabilize in Pakistan and Tunisia, while the surpluses in Egypt and Morocco are projected to ease, with rising imports reflecting growing domestic demand.

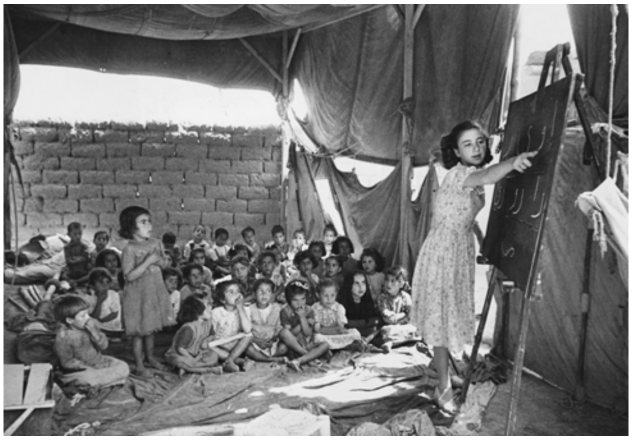
- In *LICs,* the deficit is expected to narrow, mainly because of lower projected deficits in Sudan, owing to rising oil prices and production as well as a tightening fiscal stance, and in Yemen because of the tapering off of investment in the Liquefied Natural Gas project and increasing oil prices. The very large surplus in Uzbekistan (driven by both commodity and noncommodity export receipts and remittances) is set to continue. Elsewhere, deficits are projected to widen—in Mauritania because of lower oil exports related to production constraints, and in Djibouti owing to higher imports for foreign-financed construction projects (including the Port).

The MCD region's fiscal surplus is expected to increase moderately in 2008, reversing the decline in 2007.

- Although *oil-exporting countries* continue to undertake major investment projects, revenues are expected to grow more rapidly than expenditures. As a result, the fiscal surplus of these countries is projected to increase to 11 percent of GDP in 2008.
- The *LICs'* fiscal deficit is projected to narrow, despite larger deficits in Armenia, Djibouti, and Tajikistan—owing to surging foreign-financed expenditures—and in Mauritania.
- The fiscal deficit of *emerging market economies* is projected to decrease, reflecting continued adjustment in all countries. A large reduction is expected in Lebanon.

Debt ratios are set to decline further. By end-2008, the government debt of oil-exporting countries is projected to fall below 14 percent of GDP, about one-fourth of its average 1998–2002 level. For LICs, the debt ratio will fall by more than half over the same period, while for emerging markets, the decline will be about one-fourth. Continued progress in cutting debt reflects cautious fiscal policies combined with funding from privatization receipts and earmarked oil revenues. High debt-to-GDP ratios in Egypt, Iraq (assuming the final stage of debt reduction), Lebanon (largely on account of privatization), and Mauritania should decline substantially in 2008. 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. Conflicts in the region and the potential for a worsening security situation could affect the region's overall economic performance significantly. The whole region could also suffer if global growth slows significantly, particularly given its increasing integration with the global economy and dependence on commodity exports. Worsening international financial market conditions could reduce capital flows to the region, and declines in regional equity and real estate markets could pose a risk to financial stability in some countries. However, the region's transformation in recent years—especially its greater diversification and the cushions built up in the form of higher official reserves and foreign assets, and lower debt—should help it to absorb all but the most severe shocks. ■



Learning Arabic (Zerka, Transjordan—1949)
Photo by Hulton-Deutsch Collection/Corbis

Classroom (Amman, Jordan—2001)
Photo by Lindsay Hebberd/Corbis

Policy Issues

While near-term prospects are good, the region faces continuing challenges to sustain its transformation and make headway in reducing unemployment and poverty. Key among these are managing exceptionally strong foreign exchange inflows, ensuring fiscal and external sustainability in some countries, continuing to develop the financial sector, maintaining progress toward diversification, and promoting private sector–led economic expansion.

In recent years, MCD countries have experienced historically high levels of net foreign exchange inflows. Sources of these inflows are varied: strong export earnings boosted by high commodity prices and successful penetration of markets; high levels of workers' remittances reflecting buoyant economic activity in some MCD and neighboring countries; private capital inflows encouraged by improved fundamentals in the region; and rising aid flows to some low-income countries.

The abundance of foreign exchange resources has provided an enormous opportunity for boosting long-term growth, as demonstrated, for example, by Kazakhstan's macroeconomic achievements (Box 4). Countries are using these resources to invest in infrastructure and human capital development. The resources are also helping to reduce external vulnerabilities, as countries have been able to repay or improve the structure of their debt, and build up foreign exchange reserves.

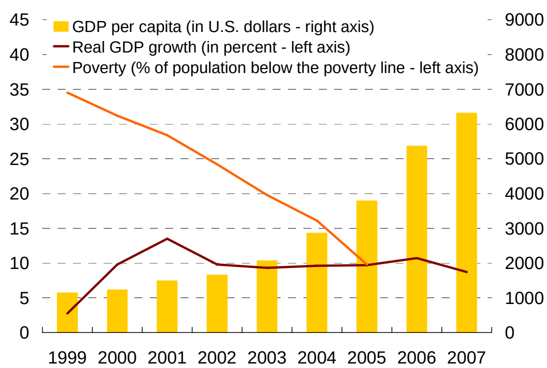
On the other hand, the large foreign exchange inflows pose difficult challenges, including how to design policies to contain mounting inflationary pressures. The challenges differ depending on countries' particular circumstances—for example, the nature of the inflows, cyclical positions, institutional structures, and the authorities' policy objectives. Countries need to find an appropriate blend of measures suited to their particular circumstances and goals.

Box 4. Kazakhstan: A Decade of Economic Progress

A remarkable transformation of Kazakhstan's economy has taken place over the past decade. The country has implemented prudent macroeconomic policies and greatly expanded its oil production capacity. Aided by the surge in world oil prices and global liquidity expansion, this has led to impressive macroeconomic achievements. Kazakhstan now faces the challenge of managing the impact of global financial turmoil.

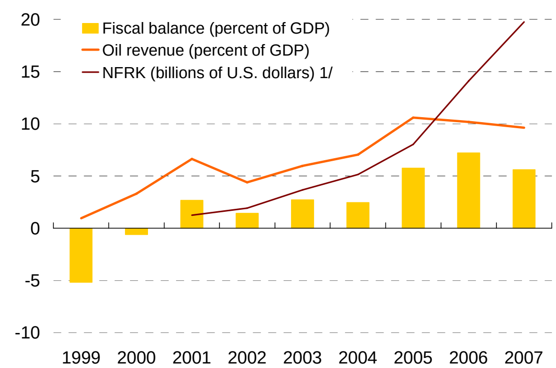
- Real GDP growth has been sustained at about 10 percent or more since 2000. This has translated into a fivefold increase in per capita GDP in dollar terms (Figure B4.1).
- Social indicators have improved markedly. The poverty rate has dropped from over 30 percent to under 10 percent (in 2005). Income distribution—measured by the Gini coefficient—has become more even.
- The fiscal position has been in surplus since 2001 and public debt is now very low (6 percent of GDP) (Figure B4.2). The government has saved a large portion of the oil revenue abroad (in an oil fund), while allocating considerable sums to social and infrastructure spending.

Figure B4.1. Income and poverty



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

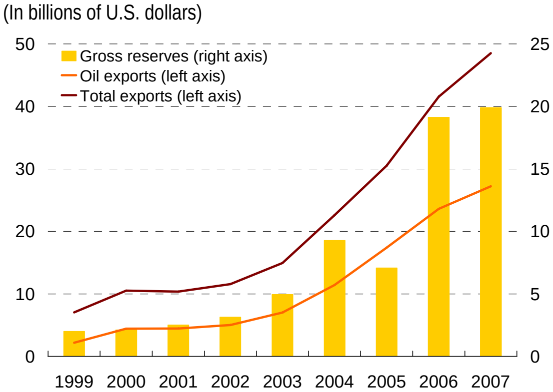
Figure B4.2. Fiscal accounts



Sources: Data provided by authorities; and IMF staff estimates.
[1]National Fund of the Republic of Kazakhstan.

- Substantial official reserves have been accumulated (Figure B4.3). Kazakhstan was awarded investment grade status by major rating agencies in 2004.
- The banking system has deepened. The ratio of bank deposits to GDP almost tripled to 30 percent during 2001–06. The share of foreign currency deposits has declined steadily.

Figure B4.3. International reserves
(In billions of U.S. dollars)



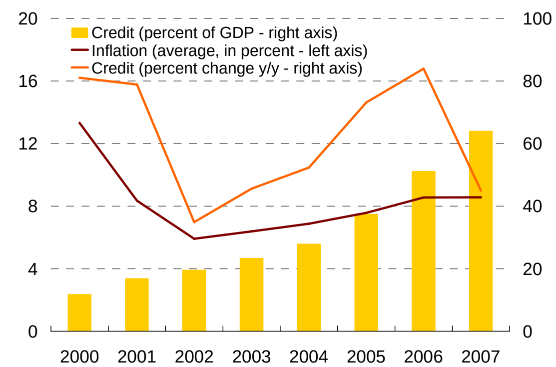
Sources: Data provided by authorities; and IMF staff estimates.

Box 4 *(concluded)*

With these impressive gains, new macroeconomic policy challenges have emerged.

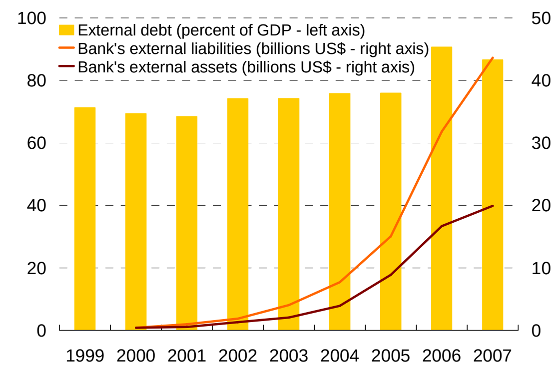
- Money and credit growth expanded very rapidly for several years. This spilled over into inflation (Figure B4.4), and real estate prices have surged.
- Large-scale external borrowing by Kazakhstan's banks—to whom international investors lent eagerly—increasingly financed the rapid credit expansion (Figure B4.5). Consequently, banks' external debt grew sharply, amounting to $46 billion at mid-2007 (48 percent of GDP).
- Increased integration with global financial markets has translated into greater spillover of volatility in international markets to the domestic market (Box 3).

Figure B4.4. Inflation and credit growth



Source: Data provided by authorities.

Figure B4.5. External assets and liabilities

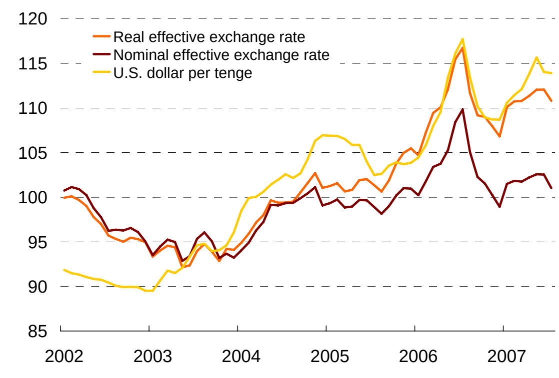


Source: Data provided by authorities.

The authorities responded to the challenges by adjusting the policy mix. During mid-2006 to mid-2007, monetary policy was tightened, with broader and higher reserve requirements and increased policy interest rates, and the tenge was allowed to appreciate significantly (Figure B4.6). Prudential regulations were enhanced to mitigate risks in the banking sector, including rules on loan-loss provisioning, asset classification, bank liquidity, and capital-related limits on banks' external borrowing. Since mid-2007, a sudden stop in capital inflows to Kazakhstan—associated with the financial turmoil in global markets—has led to tighter liquidity conditions. The central bank has responded by injecting liquidity and supporting the tenge. The appropriate course for macroeconomic policies in the near term, once market conditions settle, will depend on the depth and duration of the global credit tightening and its effect on economic activity in Kazakhstan.

Figure B4.6. Exchange rates

(Index 2000 = 100)

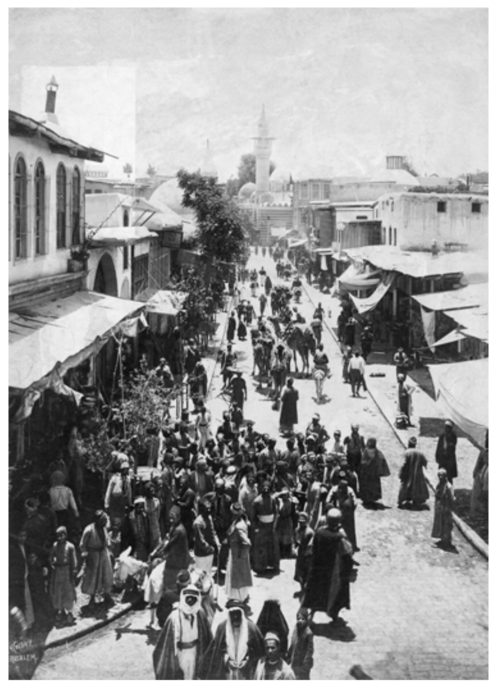


Sources: Data provided by authorities; and IMF staff estimates.

Kazakhstan's long-term prospects remain promising. Oil production is expected to triple over the next decade or so, implying abundant resources with which to further upgrade the country's physical and social infrastructure. That, together with structural reforms to enhance the investment climate, will boost productivity in the non-oil sector and help diversify the economy. ■

- In *oil-exporting countries*, the inflows have been particularly large, driven by ballooning current account surpluses. A substantial portion of the higher oil revenue has been saved. Some countries have used part of these foreign exchange receipts to acquire external assets or pay down external debt, a sensible strategy that has reduced vulnerabilities and limited inflationary pressures. However, as it has become clear that high oil prices are here to stay, most countries have increasingly seen the need to use the increased resources for growth-oriented strategies by boosting investments in infrastructure and human capital development, as well as in the oil sector to increase oil production and refining capacity. The large investment projects that are under way, together with rising consumer goods imports, are reducing the sizable surpluses and helping to stabilize global imbalances.[19] In the context of pegged exchange rate regimes in many oil producing countries, a pickup in inflation has proved unavoidable in some cases, but the evidence suggests that open and flexible goods and labor markets can greatly limit inflationary pressures by curbing the extent to which the real exchange rate needs to adjust to higher oil prices. In practice, with oil accounting for the bulk of exports, real exchange rate appreciation would only make a small dent in oil exporters' current account surpluses. Higher fiscal spending is a much more effective tool.[20]

- In the *CCA* region, rising inflows have been driven by high commodity prices, growing noncommodity exports, and increasing remittances. Strong capital inflows have also become an important factor in some cases (Georgia and Kazakhstan). Exchange rate policies in the CCA countries have been mostly inflexible (except in Armenia), as central banks have resisted appreciation with largely unsterilized intervention. Consequently, broad money and credit growth have been fast, leading to rising inflation—now averaging over 10 percent—



Bazaar in Damascus (Damascus, Syria—about 1950s)
Photo by Hulton-Deutsch Collection/Corbis

[19]However, in a few cases (e.g., Azerbaijan and Qatar) fiscal expansion is running against supply constraints and some signs of overheating have emerged. In these countries, improving the phasing and monitoring of large investment projects that are carried out by governments and quasi-public entities is required.

[20]Recent empirical evidence for GCC countries shows very little response of the current account to the real exchange rate, but a significant response of the current account to fiscal policy. This is because most of the oil revenue goes to the state and saving/spending decisions are governed more by fiscal policy rather than relative prices.

View over Damascus (Damascus, Syria—2007)
Photo by Rainer Jensen/dpa/Corbis

even though some countries have tightened fiscal policy in response to large inflows. While tighter fiscal policies may help to limit exchange rate pressures, macroeconomic policies are unlikely to prevent real exchange rate appreciation over the long term. In the absence of formally pegged currencies in the CCA countries, authorities should consider allowing more nominal appreciation, to limit the rise in inflation and its harmful effects on economic growth. Armenia's experience suggests that this approach can lead to a combination of strong, sustained growth and low inflation (Box 5).

- In *emerging market countries*, reserve buildups are driven mostly by FDI and portfolio investment inflows. Large capital inflows reflect ample regional and global liquidity attracted by improved policies, domestic privatization programs (Egypt, Jordan, Morocco, and Tunisia) and increased financial integration. These inflows, however, bring risks of overheating, loss of competitiveness from real exchange rate appreciation, and increased vulnerability to crises, especially in countries with substantial current account deficits. Maintaining macroeconomic stability in these circumstances requires tightening fiscal and, where appropriate, monetary policies as well as strengthening the quality of supervision and regulation of financial systems. Less resistance to exchange market pressures would also be desirable where exchange rates are not pegged, to permit a greater degree of monetary control and reduce speculative inflows.

Medium-term fiscal and external sustainability remains an important challenge in several countries.

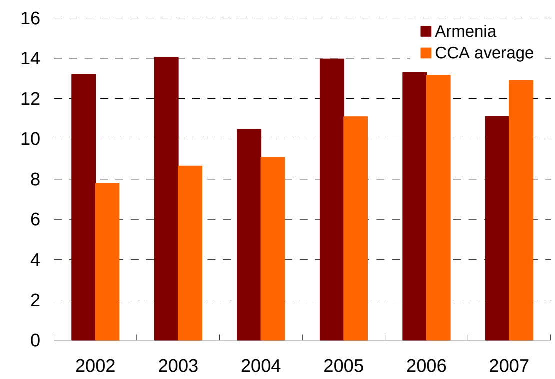
- Fiscal deficits in some countries (Egypt, Lebanon, and Tajikistan) are still too high to ensure that public debt is on a firmly declining path. In a few oil-producing countries, fiscal deficits are projected to widen with the prospective decline in oil revenues (Bahrain, Syria, and Yemen), potentially setting their debt on an upward path. In all these countries, fiscal reforms are a priority in the period ahead. In particular, efforts will be needed to increase public sector revenues by broadening the tax base, reducing exemptions, and improving tax administration. These efforts need to be complemented by expenditure restraint and reductions in explicit and implicit subsidies. Consistent with this, for example, the Egyptian authorities are publicly committed to a medium-term fiscal strategy that would ensure debt sustainability (Box 6).

Box 5. Armenia: The Road to a Successful Transition

Armenia's economic transformation has been supported by appropriate monetary and fiscal policies, exchange rate flexibility, and well-sequenced reforms.

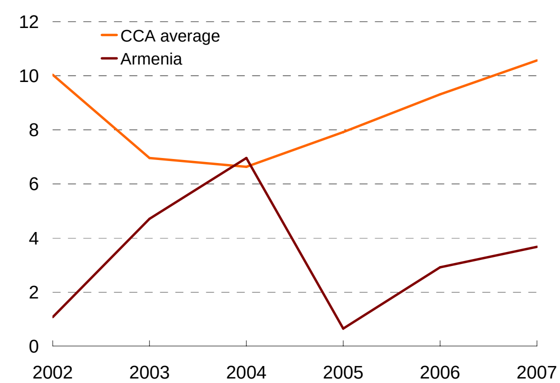
Armenia's economic performance over the period 2002–07 has been very strong compared to other low-income countries, including those in the CCA (Figure B5.1). Despite a challenging regional environment, since 2002 output has been growing in double digits, inflation has remained low, and poverty has fallen significantly (Figure B5.2). These positive outcomes reflect the strong commitment of policymakers to macroeconomic stability, liberal trade and foreign exchange regimes, and structural reforms.

Figure B5.1. Real GDP growth
(Annual change; in percent)



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

Figure B5.2. CPI inflation
(Annual change; in percent)



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

The economic structure has witnessed a radical transformation since the mid-1990s. Recently, construction and services, fueled by large inflows of remittances, have become the engines of growth, ahead of industry and agriculture. The export structure has also evolved: exports of mineral products and base metals have gained importance, mainly because of new investments and high international commodity prices, while the share of diamond processing and precious metals has dwindled. With trade hampered by regional conflicts, the contribution of exports to growth remains small, making Armenia's double-digit growth rates even more impressive.

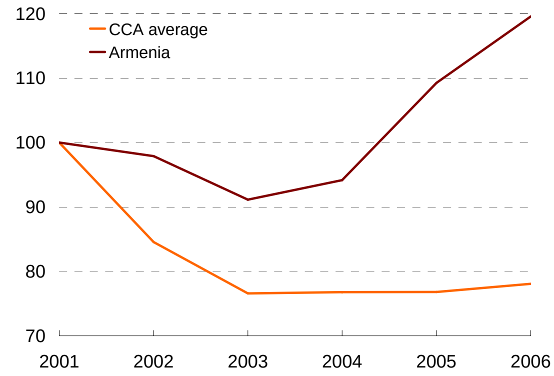
Early reforms focused on adjusting relative prices and incentives, setting the stage for macroeconomic stabilization and a revitalization of the economy. The fiscal and quasi-fiscal (energy sector) consolidation undertaken in the late 1990s brought the central government deficit down from 17 percent of GDP in 1994 to 6 percent in 2000, thus playing a critical role in reducing inflation to single-digit levels. Central bank independence ensured the support of tight

Box 5 *(concluded)*

monetary policies. By the beginning of the current decade, the privatization of medium- and large-scale enterprises was close to completion, the banking system was entirely in private hands, and key tax and energy sector reforms had been initiated.

With macroeconomic stabilization achieved, the authorities have started to focus on "second-generation" reforms to tackle the remaining imbalances that constrain economic growth. A renewed stabilization and reform effort was launched in 2001, supported by the first of two successive Poverty Reduction and Growth Facility (PRGF) arrangements with the IMF. Comprehensive reforms were introduced in the fiscal, banking, and energy sectors, in line with Armenia's Poverty Reduction Strategy Paper (PRSP). The key goals were to reduce poverty and boost growth by strengthening tax policy and administration, expanding public expenditure on social and infrastructure projects, enhancing the regulatory environment, and improving financial sector supervision.

Figure B5.3. Nominal effective exchange rate
(Index 2001 = 100)



Source: Data provided by authorities.

The reform drive has been supported by exchange rate flexibility. In the face of large and persistent foreign exchange inflows, the central bank has allowed a significant nominal appreciation since end-2003, in striking contrast to other countries in the region (Figure B5.3). The combination of exchange rate flexibility with a clear focus on price stability has resulted in significant de-dollarization and re-monetization in the past two years.

While important progress has been achieved in advancing the structural reform agenda and improving the business climate, challenges remain. Recent surveys confirm Armenia's lead in structural reforms: overall, the 2006 transition indicators of the European Bank for Reconstruction and Development rate Armenia higher than other CCA countries, and Armenia ranks 39 out of 175 economies in the "ease of doing business" index according to the World Bank's *Doing Business 2008* report. While tax and customs administrations have been gradually upgraded, further improvements are needed—the ratio of tax revenue to GDP is very low by regional standards. There is also a need to reduce energy subsidies. Prudential regulations and oversight of the banking system have been strengthened, and banks' corporate governance has improved. However, the level of financial intermediation, measured as the ratio of broad money (or bank credit) to GDP, is lower than in most CCA countries. ■

Box 6. Egypt: An Emerging Success Story

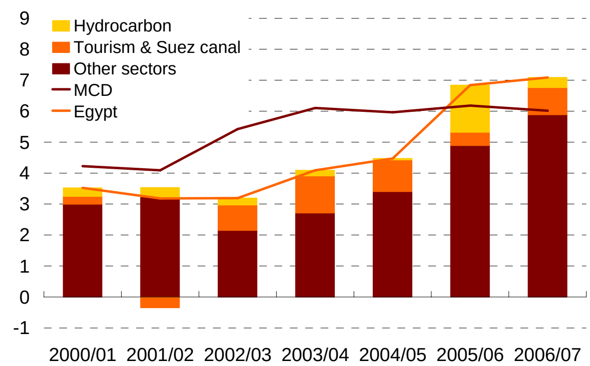
Bold reforms, helped by a positive external environment, are transforming the Egyptian economy into one of the fastest growing economies in the region.

Following years of weak growth and rising unemployment, reforms launched in 2004 triggered a growth spurt, with Egypt's economy growing by nearly 7 percent annually in the last two years—stronger than many regional peers (Figure B6.1). This increase in growth has been broad based—including in agriculture and manufacturing—and has begun to make a dent in chronically high unemployment. The Egyptian stock market has been one of the best performers in the region (Figure B6.2). The external accounts are benefiting from a surge in tourism revenues and remittances (mainly from Egyptians working in the Gulf) as well as in Suez canal fees. Strong capital inflows have been mostly in the form of foreign direct investment. Egypt also successfully floated a local currency Eurobond this year. Official reserves are comfortably high. The diversified sources of Egypt's capital inflows—North America, Europe, and the Middle East—and the fact that they have mostly not been intermediated through the banking system imply that the risks associated with a sudden reversal are small.

The reforms launched in 2004 were geared to encouraging the private sector to become the engine of job-creating growth. This entailed strengthening macroeconomic stability, in particular through tackling the large fiscal deficit, revitalizing the financial sector, and bold structural reforms.

Figure B6.1. Real GDP growth

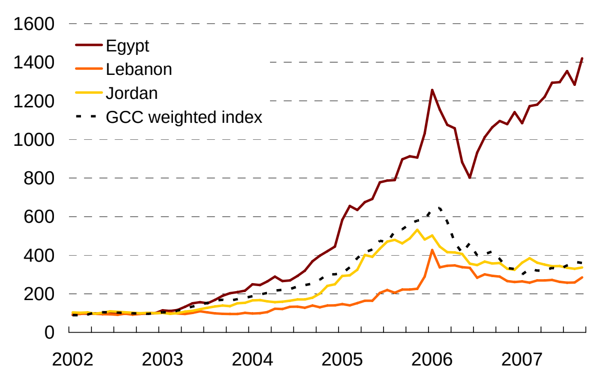
(Annual change; in percent)



Sources: Data provided by authorities; and IMF staff estimates. Data are on fiscal year basis.

Figure B6.2. Stock market indices

(Index December 2002 = 100)



Source: Bloomberg.

Box 6 *(concluded)*

- In 2004/05 with (net) public debt at 71 percent of GDP and a central government fiscal deficit of nearly 10 percent of GDP, public debt dynamics appeared unsustainable. To ensure long-run macroeconomic stability, the new government that took office in 2004 launched a medium-term fiscal adjustment program, aimed at bringing the deficit down to 3–4 percent of GDP by 2010/11. Steps implemented so far include sharp cuts and equalization of top personal and income tax rates (at 20 percent) while enlarging the tax base, reforming the tax administration, cutting fuel subsidies, mobilizing large one-off revenues (privatization, sale of mobile licenses), and improving cash management through the phasing in of a treasury single account. As a result, the fiscal deficit for 2006/07 is estimated to have fallen below 8 percent of GDP.
- The banking sector suffered from high levels of nonperforming loans (NPLs) arising from the credit excesses in the late 1990s. Moreover, the state dominance of the financial sector (bank and nonbank), combined with the need to finance large fiscal deficits, led to a further distortion of incentives for intermediation and private sector lending. To strengthen financial intermediation the government has started to recapitalize the troubled state banks by paying off NPLs of public sector companies with privatization receipts, while establishing workout procedures for private sector NPLs. To date, the government has sold a major state bank (Bank of Alexandria) as well as various joint ventures to private investors and is in the process of privatizing another (Banque du Caire). The majority of the banking system is now in private hands. The insurance sector is also being reformed, and the pension system is being privatized with a view to increasing long-term saving.
- Structural reform efforts include the creation of a functioning foreign exchange market, cutting of red tape affecting business activity, personal and corporate tax reforms, two rounds of import tariff reductions, and a privatization program to reduce state dominance in activities best served by the private sector. In particular, the authorities have sold off a wide range of public assets, including land for industrial enterprises, a sizable part of the public telecommunications company, and a major retail chain.

To sustain growth and employment creation, implementation of the medium-term fiscal adjustment strategy will be critical to raise national saving and finance the higher private investments needed for long-term high growth. The planned move to an inflation targeting framework for monetary policy would require a greater role for market forces in determining the exchange rate—especially in the presence of large capital inflows. Efforts to improve the investment climate and the quality of public services in education, health, and the provision of physical infrastructure need to be improved. ■

- Some LICs (Djibouti, Georgia, the Kyrgyz Republic, and Tajikistan) and emerging market countries (Jordan, Lebanon, and Pakistan) have relatively high current account deficits. In most of these countries, monetary policy as well as fiscal policy could contribute to reducing domestic demand. In Lebanon, steadfast implementation of the authorities' fiscal adjustment plans is needed to ensure that the debt overhang and external vulnerabilities are reduced. However, given the need to increase private investment to sustain high growth in these countries, reducing current account deficits requires efforts aimed at not only raising public savings but also increasing private savings. In the case of LICs, where large current account deficits reflect large-scale foreign financing of investments from official sources, the authorities must adopt a well-defined debt strategy and ensure the consistency of spending with absorptive capacity.

Financial sector reforms remain a priority for all MCD countries, even in those, such as Pakistan, where reforms have been far reaching in recent years (Box 7). This reflects the importance of sound and developed financial systems for achieving high and sustained economic growth, the increased integration of financial markets, and the recent large increases in foreign exchange inflows to the region. Although all countries will benefit from a further broadening and deepening of financial markets, reform priorities differ among countries reflecting their varying levels of economic and financial development. The main priorities are as follows.

- *Strengthening banking system soundness* by reducing nonperforming loans in banks' portfolios (Algeria, Mauritania, and Tunisia); ensuring adequate loan classification and provisioning (Egypt); tightening prudential regulations and strengthening banks' capacity to weather shocks (Afghanistan, Djibouti, Georgia, Kazakhstan, Kuwait, Mauritania, Oman, Sudan, Syria, Tunisia, and the U.A.E.); and monitoring closely financial sector balance sheets risks (Jordan, Lebanon, Kazakhstan, and the U.A.E.) as well as concentration of loans in the real estate sector (GCC countries and Kazakhstan).

- *Enhancing competition in the banking system* by restructuring public banks (Afghanistan, Algeria, Azerbaijan, Libya, Sudan, and Syria), privatization (Algeria, Egypt, and Uzbekistan), and encouraging entry of foreign banks (Armenia).

- *Deepening of financial markets* by strengthening the regulation and supervision of securities markets (Kuwait, Oman, and the U.A.E.), broadening the investor base (the U.A.E.), establishing a government securities market (Syria), developing a secondary market for debt instruments, including corporate securities (Armenia, Egypt, GCC countries, and Pakistan), and improving transparency (GCC countries).

- *Enhancing the role of banks in economic activity* by putting in place measures that increase confidence in the banking system, attract bank deposits, and encourage financial intermediation (Armenia, Uzbekistan, and Yemen).

Diversification remains a challenge, despite the important progress already made. In oil and non-oil commodity exporters, large foreign exchange inflows have boosted economic growth in noncommodity sectors. Indeed, in about half of the oil exporting countries, non-oil GDP has registered double-digit growth rates during the past few years. The increase in the share of non-oil GDP in total GDP has been particularly large in Oman and the U.A.E., where the authorities have been implementing diversification strategies for some time (Box 8). Building on the private sector growth momentum spurred by reforms initiated in the late 1990s, the authorities in Saudi Arabia have

Box 7. Pakistan: An Economic Turnaround

Prudent macroeconomic policies and substantive structural reforms have contributed to improving significantly Pakistan's economic performance since the early part of this decade.

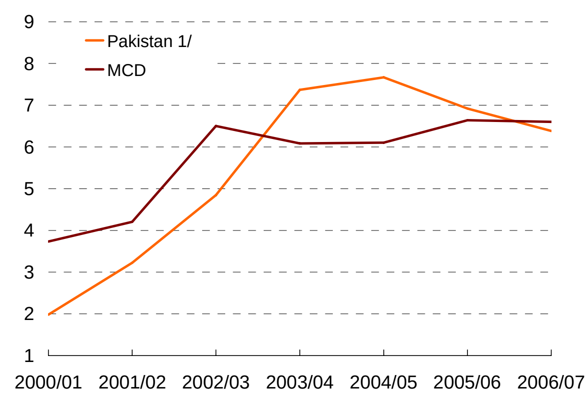
In the last five years, Pakistan has benefited from a rapid and broad-based recovery. With real GDP growth rates of about 7 percent a year, its economy has become one of the fastest growing in the region (Figure B7.1). The fiscal and external positions have improved, and macroeconomic stability and a benign external environment have led to a substantial reduction of the external debt burden. Poverty rates have also declined. Moreover, the economy has shown remarkable resilience to shocks, such as the devastating 2005 earthquake and rapidly rising oil prices.

Pakistan's macroeconomic performance reflects a range of policy efforts, of which fiscal consolidation has been a key element. In the last five years, the budget deficit averaged 2¾ percent of GDP, as opposed to 4½ percent in the previous five-year period. Fiscal discipline led to a decline in total public debt from 80 percent of GDP in June 2002 to an estimated 55 percent in June 2007, with external public debt falling from 40 percent of GDP to about 30 percent over the same period. The Fiscal Responsibility Law approved in 2005 has helped to lock in these gains. Importantly, fiscal consolidation has been achieved while increasing the share of development and poverty-related spending in GDP.

At the same time, an international environment of ample liquidity and the strength of economic policies have encouraged a substantial increase in capital inflows. In particular foreign direct investment—mostly in the energy, telecommunications, and banking sectors—increased to more than $5 billion in 2006/07, from less than $500 million five years ago (Figure B7.2).

Figure B7.1. Real GDP growth

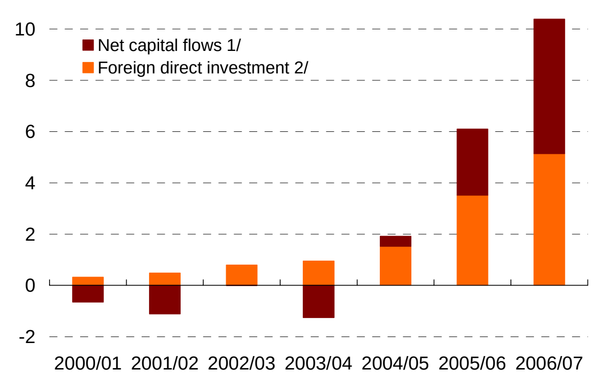
(Annual change; in percent)



Sources: Data provided by authorities; and IMF staff estimates. Data are on fiscal year basis.
[1]GDP on fiscal year basis and measured at market prices.

Figure B7.2. Capital flows

(In billions of U.S. dollars)



Sources: Data provided by authorities; and IMF staff estimates. Data are on fiscal year basis.
[1]Defined as the overall balance minus the current account balance. Total net capital flows in 2000/01–2004/05 were lower than FDI flows.
[2]Includes privatization.

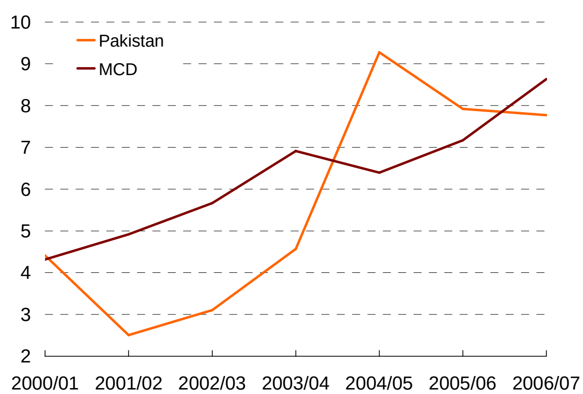
Box 7 *(concluded)*

Structural reforms are also an important element in Pakistan's success story. Financial sector reforms have been far-reaching, resulting in a complete overhaul of the banking system. After years of extensive privatization, restructuring, and recapitalization, the system has expanded rapidly around a core of highly profitable, local private banks. Advances have also been made in other areas, such as tax administration, trade liberalization, and, more recently, privatization of state-owned enterprises.

Despite the improvement in its economic performance, Pakistan still faces important challenges. In particular, annual inflation is still relatively high at around 7–8 percent (Figure B7.3), and the external current account deficit has risen in recent years, reaching 5 percent of GDP in 2006/07 (Figure B7.4). Capital inflows, however, have been large enough to cover the higher current account deficit while allowing at the same time for a buildup of international reserves. Given the need to upgrade the country's infrastructure and increase private investment to sustain high growth, reducing inflation and the current account deficit requires further efforts aimed at raising public and private savings. ■

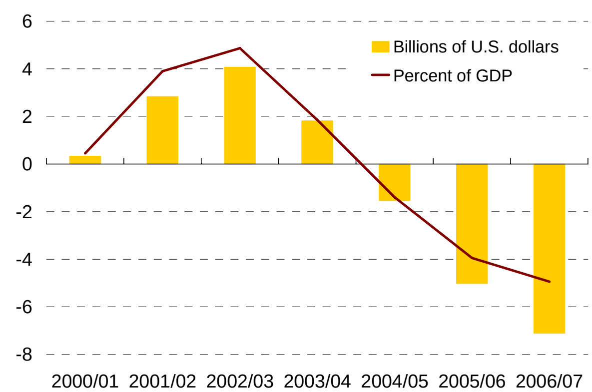
Figure B7.3. CPI inflation

(Annual change; in percent)



Sources: Data provided by authorities; and IMF staff estimates. Data are on fiscal year basis.

Figure B7.4. Current account balance



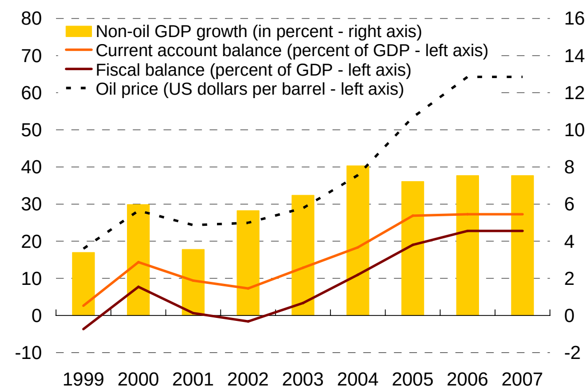
Sources: Data provided by authorities; and IMF staff estimates. Data are on fiscal year basis.

Box 8. The Boom in the GCC: Is It Sustainable?

GCC countries are enjoying strong macroeconomic fundamentals and broad-based economic expansion during the current oil boom. Sustainable expansion will depend on the ongoing implementation of large investment projects and continued structural reforms.

The macroeconomic performance of the GCC countries over the past four years has been very strong. GCC economies have expanded at an annual average real rate of 7 percent. Soaring oil prices boosted hydrocarbon revenues, contributing to large fiscal and external surpluses (Figure B8.1). GCC fiscal and current account surpluses increased to 23 percent and 27 percent of GDP, respectively, in 2006, despite sharp increases in fiscal spending and import payments.

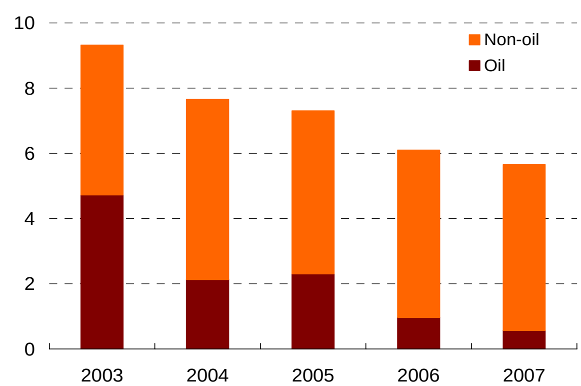
Figure B8.1. Economic impact of oil prices



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

The composition of growth is shifting, with the non-oil sector now becoming the major factor (Figure B8.2). Despite rising oil prices, the non-oil sector's contribution to real GDP growth increased from 49 percent in 2003 to 84 percent in 2006. However, growth of the non-oil sector has not been uniform across the GCC. Countries, such as the U.A.E., that had embarked on large-scale diversification programs before the boom have benefited the most.

Figure B8.2. Sectoral contributions to GDP growth[1]
(In percent)



Sources: Data provided by authorities; and IMF staff estimates.
[1]Weighted by real GDP.

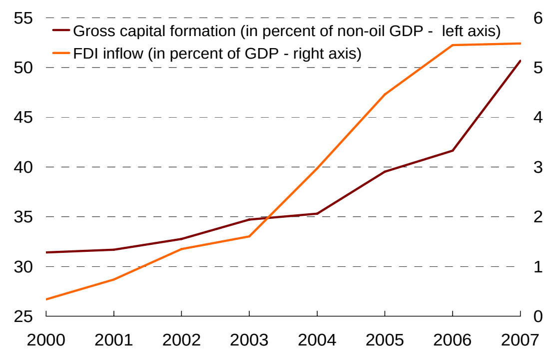
Underpinning the structural shift is a substantial increase in domestic investment across the GCC. Investment projects to be implemented in GCC countries over the medium term are projected to be worth at least $800 billion in the next five years, with more than 75 percent of that amount in the non-hydrocarbon sector.

Investment has been rising consistently and is expected to reach about 50 percent of non-oil GDP in 2007 (Figure B8.3). Direct foreign investment inflows more than tripled since 2003, owing to greater openness of the GCC markets. GCC governments are also increasingly turning to public-private partnerships with foreign companies to implement these projects.

Strong domestic demand and short-term capacity constraints have, however, contributed to inflationary pressures in several GCC countries (Figure B8.4). Qatar and the U.A.E. have experienced substantial increases in house rents, mainly because of supply bottlenecks. With a large number of housing units nearing completion, however, inflation is expected to subside over the medium term.

Box 8 *(concluded)*

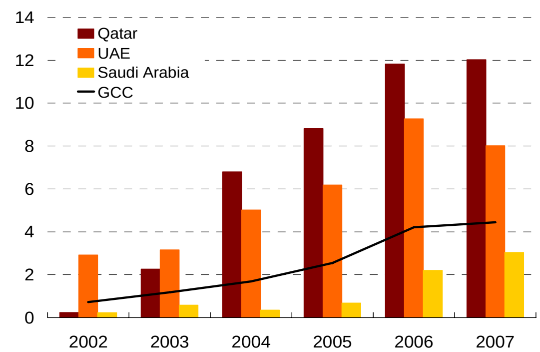
Figure B8.3. Investment trends



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

Figure B8.4. CPI inflation

(Annual change; in percent)



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

Sustaining the momentum in the non-oil sector depends on continuing with market-oriented structural reforms. GCC countries have already made significant advances in the areas of legislative and financial sector reforms. Concerted efforts are also under way to modernize the supervisory and regulatory frameworks governing the financial markets. ■

Crowd leaving Mosque (Manama, Bahrain—about 1950s)
Photo by Hulton-Deutsch Collection/Corbis

the global economy. To this end, reforms have been undertaken in recent years in most MCD countries. For example, in the UAE, market-friendly policies and an outward-oriented development strategy have led to double-digit growth rates in private sector activity (Box 9). However, in several countries (Iran, Syria, Turkmenistan, and Uzbekistan), the need for a broad reform agenda aimed at promoting a market economy with a vibrant private sector remains pressing. In addition to the financial sector reforms discussed above, important elements of such an agenda would include removing tariff and nontariff barriers to trade, liberalizing the foreign exchange market, simplifying the tax system and lowering tax distortions that hamper business activity, streamlining and enhancing the transparency of the legal and administrative system, and more generally reducing government controls and extensive regulations in the economy. The strong macroeconomic performance of the past few years and the favorable external environment provide the right opportunity to undertake these reforms. ■

launched a broad-based industrial program aimed at further diversifying the economy. Nevertheless, building competitive non-oil sectors is a daunting task, and an urgent one for countries facing imminent declines in oil production and those that are vulnerable to fluctuating commodity prices with a limited cushion to absorb shocks. In these countries, private investment in noncommodity sectors is needed to achieve more balanced growth, and structural reforms to boost productivity are important to strengthen the competitiveness of noncommodity sectors, especially if real effective exchange rates are appreciating.

More broadly, a dynamic private sector is essential for achieving high and sustainable growth rates, reducing poverty, and fostering further integration of the MCD countries into

City in Bahrain (Manama, Bahrain—1988)
Photo by Adam Woolfitt/Corbis

Box 9. The United Arab Emirates: The Race to Prosperity

Rising oil prices and a booming non-oil sector have underpinned the U.A.E.'s stellar economic performance over the past four years. The implementation of upcoming reforms will further boost investor confidence and sustain the growth momentum over the foreseeable future.

The U.A.E. has firmly established itself as a regional hub for international business and trade in the Middle East. Owing to market-friendly policies and an outward-oriented development strategy, the U.A.E. has become the second-largest economy in the Arab world after Saudi Arabia, and is increasingly playing an important positive regional role through foreign direct investment, expatriate labor, and financial services.

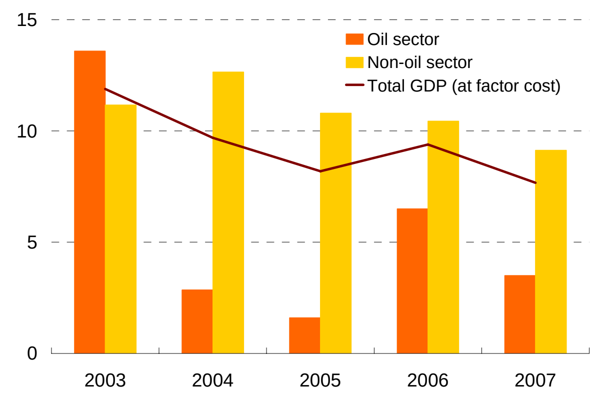
Since 2003, the U.A.E. has been growing at an impressive rate underpinned by rising oil revenues and a rapidly expanding non-oil sector (Figure B9.1). Its economy grew by 9.4 percent in 2006, with oil production rising by about 8 percent and most private sector activities growing at double-digit rates. The driving force behind the growth of the non-oil sector has been the substantial investments undertaken by private and quasi-government companies, which are expected to reach around $300 billion over the next 5–10 years.

Supported by high oil prices and strong performance of non-oil exports, the country's external position remains favorable, with the 2006 current account surplus reaching $36 billion, or 22 percent of GDP (Figure B9.2). Furthermore, the fiscal position has continued to strengthen, with the overall fiscal surplus increasing by about 9 percentage points to around 29 percent of GDP in 2006, which allowed for further buildup of government investment assets abroad.

The fast pace of economic expansion and the large inflow of expatriate workers have put strains on existing resources, leading to housing shortages that have fueled inflation (9.3 percent in 2006) through sharp increases in rents (Figure B9.3). However, the increased supply of housing in 2007–08, together with the caps on rents introduced in Dubai and Abu Dhabi, is expected to dampen the pressure on consumer prices. Should inflation fail to decline as expected, further fiscal restraint would need to be considered to bring domestic demand growth in line with the economy's absorptive capacity. The success of these measures would require a higher degree of fiscal coordination between the emirates.

Figure B9.1. Real GDP growth

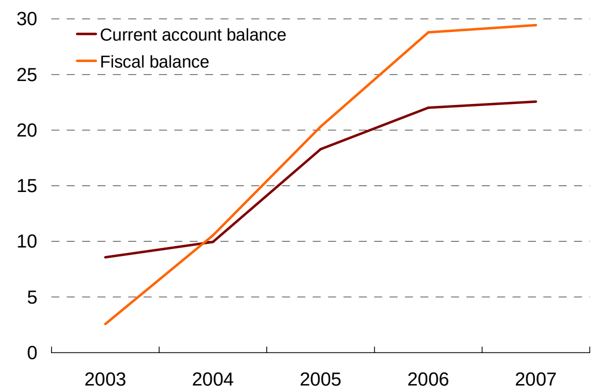
(Annual change; in percentage)



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

Figure B9.2. Current account and fiscal balances

(In percent of GDP)



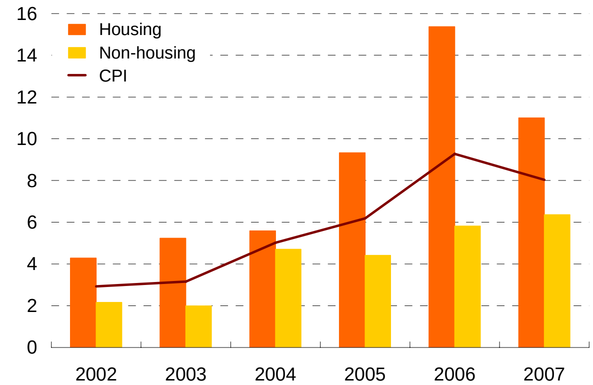
Sources: Data provided by authorities; and IMF staff estimates.

Box 9 *(concluded)*

Although growth is projected to decelerate somewhat in 2007, it is likely to remain high at about 8 percent. The projected deceleration reflects possible delays in construction and real estate projects owing to supply bottlenecks and rising costs. Over the medium term, however, the non-oil sector is expected to continue to grow at a relatively high rate of about 9 percent.

To maintain its robust economic growth, the U.A.E. would need to accelerate the pace of structural reforms. Earlier this year, the government announced plans for major strategic reforms aiming to further strengthen the economy's global competitiveness. Key reforms include the modernization of the laws and regulations governing financial markets, foreign investment, market competition, and labor markets. It also seeks to enhance government efficiency and improve coordination between the federal and emirate governments. These reforms, together with efforts to bring down inflation, would help sustain the current high growth with macroeconomic and financial stability. ■

Figure B9.3. Consumer prices
(Annual change; in percent)



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

Photo on opposite page:
Containers at Jebel Ali Port in Dubai, United Arab Emirates—2006
By Regi Varghese/Reuters/Corbis

Statistical Appendix

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, Yemen, and West Bank and Gaza.

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.

The data relate to the calendar year, with the following exceptions: (1) for Qatar, fiscal data are on a fiscal year (April/March) basis, and (2) 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 (e.g., 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) is composed of 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	Est. 2007	Proj. 2008
Middle East and Central Asia	**3.9**	**6.5**	**6.1**	**6.1**	**6.6**	**6.6**	**6.7**
Oil exporters	**3.8**	**7.6**	**6.2**	**6.3**	**6.2**	**6.6**	**6.4**
Algeria	3.6	6.9	5.2	5.1	3.6	4.8	5.2
Azerbaijan	7.7	10.5	10.4	24.3	31.0	29.3	23.2
Bahrain	4.8	7.2	5.6	7.8	7.6	6.8	6.5
Iran	4.2	7.2	5.1	4.4	4.9	6.0	6.0
Iraq	...	...	46.5	-0.7	6.2	6.3	5.3
Kazakhstan	6.8	9.3	9.6	9.7	10.7	8.7	7.8
Kuwait	8.2	16.5	10.5	10.0	5.0	3.5	4.8
Libya	2.2	5.9	5.0	6.3	5.6	9.2	6.9
Oman	3.6	2.0	5.4	5.8	5.9	6.0	6.3
Qatar	7.0	6.3	17.7	9.2	10.3	14.2	14.1
Saudi Arabia	1.5	7.7	5.3	6.1	4.3	4.1	4.3
Syria	2.9	1.1	2.8	3.3	4.4	3.9	3.7
Turkmenistan	15.6	17.1	14.7	9.0	9.0	10.0	10.0
United Arab Emirates	4.0	11.9	9.7	8.2	9.4	7.7	6.6
Low-income countries	**4.9**	**6.8**	**6.4**	**7.6**	**9.3**	**9.3**	**8.8**
Afghanistan	28.6	15.7	8.0	14.0	7.5	13.0	8.4
Armenia	7.9	14.0	10.5	14.0	13.3	11.1	10.0
Djibouti	1.6	3.2	3.0	3.2	4.8	4.8	5.7
Georgia	3.6	11.1	5.9	9.6	9.4	11.0	9.0
Kyrgyz Republic	3.3	7.0	7.0	-0.2	2.7	7.5	7.0
Mauritania	3.1	5.6	5.2	5.4	11.4	0.9	4.4
Sudan	5.5	7.1	5.1	8.6	11.8	11.2	10.7
Tajikistan	7.3	10.2	10.6	6.7	7.0	7.5	8.0
Uzbekistan	4.1	4.2	7.7	7.0	7.3	8.8	7.5
Yemen	4.7	3.7	4.0	4.6	4.0	3.6	4.3
Emerging markets	**4.0**	**4.5**	**5.9**	**5.4**	**6.8**	**5.9**	**6.6**
Egypt	5.1	3.2	4.1	4.5	6.8	7.1	7.3
Jordan	4.3	4.2	8.6	7.1	6.3	6.0	6.0
Lebanon	2.3	4.1	7.4	1.0	0.0	2.0	3.5
Morocco	3.3	6.1	5.2	2.4	8.0	2.5	5.9
Pakistan	3.1	4.8	7.4	7.7	6.9	6.4	6.5
Tunisia	4.5	5.6	6.0	4.0	5.4	6.0	6.2
Memorandum							
CCA	**6.0**	**8.6**	**9.1**	**11.1**	**13.2**	**12.9**	**11.2**
MENA	**3.8**	**6.5**	**5.5**	**5.2**	**5.8**	**5.8**	**6.1**
Of which							
GCC	**3.0**	**8.8**	**7.1**	**7.0**	**5.9**	**5.4**	**5.4**
Maghreb	**3.5**	**6.3**	**5.3**	**4.4**	**5.4**	**4.9**	**5.7**

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

Table 2. Nominal GDP

(In billions of U.S. dollars)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	**846.2**	**1,030.7**	**1,238.0**	**1,502.5**	**1,779.7**	**2,062.4**	**2,352.6**
Oil exporters	**551.2**	**704.6**	**874.9**	**1,096.0**	**1,306.2**	**1,516.0**	**1,728.7**
Algeria	52.8	68.0	85.0	102.1	113.9	125.9	139.5
Azerbaijan	5.2	7.3	8.7	13.2	19.8	31.1	44.4
Bahrain	7.4	9.7	11.1	13.4	15.4	16.9	18.6
Iran	106.2	134.0	161.3	188.5	222.4	278.1	324.6
Iraq	...	...	25.8	31.4	49.5	65.1	74.8
Kazakhstan	20.7	30.9	43.2	57.1	81.0	95.5	110.9
Kuwait	33.4	47.8	59.3	80.8	95.9	103.4	114.5
Libya	30.1	24.0	30.5	41.7	50.4	66.0	79.5
Oman	18.0	21.8	24.7	30.8	36.0	40.5	45.4
Qatar	15.5	23.5	31.7	42.5	52.7	65.8	82.8
Saudi Arabia	173.6	214.9	250.7	315.8	349.1	374.5	407.0
Syria	19.3	22.7	25.0	28.6	34.9	37.4	39.4
Turkmenistan	5.5	11.4	14.2	17.2	21.8	26.2	31.9
United Arab Emirates	63.6	88.6	103.8	133.0	163.3	189.6	215.3
Low-income countries	**45.2**	**56.5**	**68.7**	**84.9**	**106.0**	**128.2**	**149.7**
Afghanistan	4.1	4.6	6.0	7.3	8.3	9.9	11.5
Armenia	2.0	2.8	3.6	4.9	6.4	8.6	10.4
Djibouti	0.6	0.6	0.7	0.7	0.8	0.8	0.9
Georgia	3.2	4.0	5.1	6.4	7.8	9.6	11.0
Kyrgyz Republic	1.5	1.9	2.2	2.5	2.8	3.5	4.1
Mauritania	1.2	1.3	1.5	1.9	2.7	2.7	2.9
Sudan	12.6	17.8	21.7	27.9	37.4	46.7	55.9
Tajikistan	1.1	1.6	2.1	2.3	2.8	3.4	3.8
Uzbekistan	13.4	10.1	12.0	14.3	17.0	20.2	23.2
Yemen	8.8	11.8	13.9	16.8	20.0	22.7	26.0
Emerging markets	**249.8**	**269.7**	**294.4**	**321.5**	**367.4**	**418.3**	**474.1**
Egypt	91.4	81.4	78.8	89.8	107.4	127.9	149.7
Jordan	8.6	10.2	11.4	12.6	14.1	15.7	17.4
Lebanon	17.3	19.8	21.5	21.5	22.7	24.0	25.3
Morocco	39.0	49.8	56.4	59.0	65.4	72.8	79.7
Pakistan	73.2	83.5	98.1	109.6	127.0	143.8	164.2
Tunisia	20.2	25.0	28.3	29.0	30.8	34.1	37.8
Memorandum							
CCA	**52.7**	**70.0**	**91.0**	**117.9**	**159.5**	**197.9**	**239.6**
MENA	**720.2**	**877.2**	**1,048.9**	**1,274.9**	**1,493.2**	**1,720.7**	**1,948.8**
Of which							
GCC	**311.4**	**406.3**	**481.3**	**616.2**	**712.4**	**790.7**	**883.7**
Maghreb	**143.3**	**168.1**	**201.6**	**233.6**	**263.3**	**301.5**	**339.4**

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	Est. 2007	Proj. 2008
			Non-oil GDP				
Oil exporters	**4.5**	**6.6**	**6.8**	**6.4**	**6.9**	**7.2**	**6.8**
Algeria	3.6	5.9	6.2	4.8	5.4	6.6	6.6
Azerbaijan	4.2	15.3	13.8	8.4	12.8	8.9	8.6
Bahrain	4.4	8.3	8.8	10.3	8.6	7.5	7.2
Iran	4.7	7.0	5.4	5.0	5.3	6.5	6.5
Iraq	...	...	14.9	12.0	7.5	5.0	6.0
Kazakhstan	7.6	8.8	8.4	11.5	11.9	9.1	7.6
Kuwait	7.5	13.9	12.5	8.9	7.2	7.5	7.4
Libya	3.0	2.6	4.2	5.6	6.0	9.7	5.2
Oman	4.5	6.5	8.6	6.9	7.2	7.2	7.2
Qatar	3.7	7.3	24.6	13.1	10.0	10.0	10.0
Saudi Arabia	3.2	3.7	4.6	5.2	6.3	6.6	6.7
Syria	5.6	2.5	5.0	6.0	6.5	5.8	5.0
Turkmenistan	17.6	17.8	16.1	11.0	11.0	11.0	11.0
United Arab Emirates	7.0	11.2	12.6	10.8	10.4	9.1	7.6
			Oil GDP				
Oil exporters	**1.8**	**10.4**	**4.5**	**4.5**	**3.4**	**3.3**	**3.6**
Algeria	3.4	8.8	3.3	5.6	0.0	1.0	2.0
Azerbaijan	20.0	0.6	2.5	65.4	61.9	53.3	35.4
Bahrain	7.3	1.1	-11.5	-8.4	-0.4	0.3	0.3
Iran	0.7	8.4	2.9	-0.4	1.7	2.1	2.1
Iraq	...	...	74.2	-8.1	5.3	7.3	4.8
Kazakhstan	17.3	11.6	15.5	1.7	5.0	6.4	8.5
Kuwait	10.6	19.8	8.1	11.4	2.3	-1.6	1.3
Libya	-0.5	17.7	7.4	8.3	4.4	7.8	12.0
Oman	2.1	-6.8	-1.8	2.9	2.6	2.7	3.7
Qatar	10.1	5.6	12.5	6.0	10.7	18.0	17.6
Saudi Arabia	-1.8	17.2	6.7	7.8	0.2	-1.2	-1.1
Syria	-4.4	-3.8	-6.1	-8.6	-6.4	-7.3	-4.5
Turkmenistan	22.2	11.3	-1.7	3.0	3.0	6.8	6.6
United Arab Emirates	-1.3	13.6	2.9	1.6	6.5	3.5	3.5

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

Table 4. Crude Oil Production and Exports

(Millions of barrels a day)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
				Production			
Oil exporters	**21.2**	**23.4**	**26.6**	**27.6**	**28.4**	**29.2**	**30.0**
Algeria	0.9	1.2	1.3	1.4	1.6	1.6	1.6
Azerbaijan	0.3	0.3	0.3	0.5	0.6	0.9	1.1
Bahrain	0.2	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	4.3
Iraq	...	...	2.0	1.9	2.0	2.1	2.2
Kazakhstan	0.8	1.1	1.2	1.3	1.3	1.4	1.5
Kuwait	1.9	2.1	2.3	2.6	2.6	2.6	2.6
Libya	1.4	1.5	1.6	1.7	1.7	1.9	2.1
Oman	0.9	0.8	0.8	0.8	0.7	0.7	0.7
Qatar	0.7	0.7	0.8	0.8	0.8	0.9	0.9
Saudi Arabia	7.8	8.4	8.9	9.4	9.2	9.1	9.0
Syria	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Turkmenistan	0.2	0.2	0.2	0.2	0.2	0.2	0.3
United Arab Emirates	2.4	2.6	2.7	2.7	2.9	3.0	3.1
				Exports [1]			
Oil exporters	**14.2**	**17.3**	**19.8**	**20.6**	**21.0**	**20.7**	**21.2**
Algeria	0.5	0.7	0.9	1.0	0.9	0.9	1.0
Azerbaijan	0.2	0.2	0.2	0.4	0.5	0.8	1.0
Bahrain	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Iran	2.1	2.4	2.6	2.4	2.5	2.5	2.5
Iraq	...	...	1.5	1.4	1.4	1.6	1.6
Kazakhstan	0.5	0.9	1.1	1.1	1.2	1.2	1.4
Kuwait	1.1	1.2	1.4	1.7	1.7	1.6	1.6
Libya	1.0	1.2	1.3	1.3	1.3	1.4	1.6
Oman	0.9	0.8	0.7	0.7	0.6	0.6	0.6
Qatar	0.6	0.7	0.7	0.7	0.7	0.8	0.8
Saudi Arabia	5.9	6.5	6.8	7.2	7.2	6.4	6.3
Syria	0.3	0.3	0.2	0.2	0.2	0.2	0.1
Turkmenistan	0.0	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	2.6	2.7

Sources: Data provided by country authorities; and IMF staff estimates and projections.
[1] Excluding exports of refined oil products.

Table 5. Consumer Price Inflation

(Annual change; year average; in percent)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	**5.4**	**5.7**	**6.9**	**6.4**	**7.2**	**8.6**	**7.9**
Oil exporters	**5.6**	**6.8**	**6.6**	**6.6**	**7.1**	**9.8**	**9.0**
Algeria	2.7	2.6	3.6	1.6	2.5	4.5	4.3
Azerbaijan	-0.6	2.2	6.7	9.7	8.4	16.6	17.0
Bahrain	-0.8	1.7	2.3	2.6	2.9	2.9	2.7
Iran	15.1	16.5	14.8	13.4	11.9	17.5	16.7
Iraq	12.7	35.1	7.8	38.5	64.8	30.0	12.0
Kazakhstan	8.7	6.4	6.9	7.6	8.6	8.6	7.8
Kuwait	1.5	1.0	1.3	4.1	2.8	2.6	2.6
Libya	-3.1	-2.1	-2.2	2.0	3.4	16.2	6.9
Oman	-0.3	0.2	0.7	1.9	3.2	3.8	3.5
Qatar	1.7	2.3	6.8	8.8	11.8	12.0	10.0
Saudi Arabia	-0.7	0.6	0.4	0.7	2.2	3.0	3.0
Syria	-1.1	5.8	4.4	7.2	10.0	7.0	7.0
Turkmenistan	13.7	5.6	5.9	10.7	8.2	6.5	9.0
United Arab Emirates	2.2	3.2	5.0	6.2	9.3	8.0	6.4
Low-income countries	**15.2**	**8.6**	**7.8**	**8.4**	**9.7**	**9.2**	**8.0**
Afghanistan	-19.6	35.7	12.6	12.7	7.2	7.0	8.0
Armenia	2.5	4.7	7.0	0.6	2.9	3.7	4.9
Djibouti	1.3	2.0	3.1	3.1	3.5	3.5	3.5
Georgia	7.4	4.8	5.7	8.3	9.2	8.5	8.1
Kyrgyz Republic	14.8	3.1	4.1	4.3	5.6	7.0	7.0
Mauritania	5.9	5.3	10.4	12.1	6.2	7.6	7.3
Sudan	10.9	7.7	8.4	8.5	7.2	8.0	6.5
Tajikistan	30.9	16.4	7.2	7.3	10.0	9.9	12.6
Uzbekistan	27.5	11.6	6.6	10.0	14.2	12.2	9.8
Yemen	10.9	10.8	12.5	11.7	18.2	12.5	12.1
Emerging markets	**3.2**	**3.1**	**7.3**	**5.6**	**6.8**	**6.5**	**6.0**
Egypt	3.1	4.5	11.3	4.9	7.6	8.3	7.9
Jordan	1.6	1.6	3.4	3.5	6.3	5.0	4.5
Lebanon	1.2	1.3	1.7	-0.7	5.6	3.5	2.5
Morocco	1.8	1.2	1.5	1.0	3.3	2.5	2.0
Pakistan	4.2	2.9	7.4	9.1	7.9	7.4	6.6
Tunisia	2.6	2.7	3.6	2.0	4.5	3.0	3.0
Memorandum							
CCA	**12.6**	**7.0**	**6.6**	**7.9**	**9.3**	**10.6**	**10.1**
MENA	**4.9**	**6.0**	**6.9**	**5.8**	**6.8**	**8.6**	**7.8**
Of which							
GCC	**0.1**	**1.2**	**1.7**	**2.6**	**4.2**	**4.4**	**4.0**
Maghreb	**1.7**	**1.7**	**2.4**	**1.7**	**3.2**	**5.2**	**3.9**

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	Est. 2007	Proj. 2008
Middle East and Central Asia	**14.4**	**14.2**	**20.0**	**20.9**	**25.1**	**23.7**	**17.0**
Oil exporters	**15.0**	**13.1**	**21.8**	**22.2**	**28.4**	**25.9**	**17.6**
Algeria	22.5	15.6	11.5	11.1	20.7	21.2	16.3
Azerbaijan	14.7	29.8	47.5	22.1	86.4	79.0	65.0
Bahrain	10.1	6.4	4.1	22.0	14.9	26.6	-7.0
Iran	26.9	24.6	31.0	37.1	41.1	48.8	32.1
Iraq	...	...	...	...	...	...	...
Kazakhstan	38.6	27.0	69.8	25.2	78.1	35.0	15.0
Kuwait	4.9	7.8	12.1	12.3	21.7	17.8	9.3
Libya	7.9	8.1	9.2	29.2	17.3	31.6	11.9
Oman	6.3	2.6	4.3	20.9	24.9	12.0	7.1
Qatar	12.3	4.8	20.8	42.9	39.6	43.3	18.3
Saudi Arabia	7.6	6.9	18.8	11.6	19.3	12.9	12.6
Syria	17.0	7.7	11.1	11.5	7.3	13.3	12.4
Turkmenistan	43.5	40.9	12.7	27.9	55.9	40.4	43.0
United Arab Emirates	12.4	16.1	23.2	33.8	23.2	20.4	16.1
Low-income countries	**28.5**	**25.4**	**30.7**	**34.4**	**32.0**	**29.1**	**25.3**
Afghanistan	...	40.9	34.6	12.3	22.0	15.4	14.4
Armenia	25.5	10.4	22.3	27.8	32.9	34.4	25.0
Djibouti	7.5	17.8	13.9	11.3	10.2	12.8	16.1
Georgia	19.0	22.8	42.6	26.4	39.3	31.8	26.5
Kyrgyz Republic	21.7	33.5	32.0	9.9	51.6	43.5	28.7
Mauritania	17.9	25.5	13.5	14.6	15.8	15.4	10.8
Sudan	28.3	30.3	32.1	44.7	27.4	24.0	25.0
Tajikistan	46.4	28.6	14.1	23.9	56.3	60.2	22.9
Uzbekistan	38.2	27.1	47.8	54.3	36.8	35.9	28.3
Yemen	17.5	20.0	15.0	14.4	28.8	25.0	25.0
Emerging markets	**10.6**	**14.8**	**13.8**	**14.6**	**14.0**	**15.6**	**12.6**
Egypt	11.2	16.9	13.2	13.6	13.5	18.3	16.8
Jordan	8.6	12.4	11.7	17.0	14.1	11.3	10.7
Lebanon [1]	10.6	15.4	12.3	3.5	6.4	5.0	5.0
Morocco	9.0	8.6	7.7	14.0	17.2	12.4	7.9
Pakistan	10.9	18.0	19.6	19.3	14.9	19.3	13.7
Tunisia	10.9	6.3	10.3	11.0	11.4	9.1	9.9
Memorandum							
CCA	**34.0**	**26.5**	**55.9**	**29.6**	**66.7**	**41.5**	**26.0**
MENA	**13.4**	**13.1**	**17.8**	**20.4**	**22.9**	**22.6**	**16.4**
Of which							
GCC	**8.4**	**8.6**	**18.0**	**19.1**	**22.0**	**17.6**	**12.7**
Maghreb	**13.8**	**11.0**	**9.9**	**14.6**	**17.9**	**19.2**	**12.5**

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

[1] Broad money is defined to include nonresident deposits (M5).

Table 7. Central Government Fiscal Balance

(In percent of GDP)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	**-1.6**	**-0.1**	**1.8**	**4.6**	**5.3**	**4.3**	**5.0**
Oil exporters	**0.1**	**2.6**	**5.6**	**10.8**	**11.8**	**10.2**	**11.2**
Algeria [1]	2.1	1.9	3.7	15.5	14.5	11.0	11.5
Azerbaijan	-2.1	-0.8	1.0	2.6	0.1	4.5	30.3
Bahrain	0.9	1.8	4.7	5.2	5.2	5.0	6.5
Iran	0.1	1.3	1.7	1.1	-0.9	-1.2	-0.8
Iraq [2]	...	...	-41.2	10.9	12.0	-5.3	-1.2
Kazakhstan [2]	-1.9	2.7	2.5	5.8	7.2	5.6	5.4
Kuwait	20.5	17.4	22.3	34.0	33.5	35.8	36.4
Libya	5.1	14.8	15.1	28.2	37.7	27.4	31.4
Oman	3.5	4.7	4.5	12.2	15.6	11.1	16.4
Qatar	2.3	6.4	16.4	9.2	9.7	12.2	12.9
Saudi Arabia	-4.3	1.2	10.0	18.4	21.4	18.2	16.3
Syria [2]	-1.1	-2.6	-4.2	-4.4	-5.7	-4.7	-5.5
Turkmenistan [2]	-0.4	-1.3	0.4	0.8	5.1	0.7	-1.4
United Arab Emirates [3]	-0.8	2.6	10.5	20.3	28.8	29.4	29.2
Low-income countries	**-1.9**	**-0.9**	**-0.1**	**-1.4**	**0.4**	**-2.1**	**-1.8**
Afghanistan	-0.1	-3.0	-1.2	0.9	-2.7	-2.8	-2.1
Armenia	-4.6	-1.1	-1.7	-2.6	-1.9	-1.8	-2.6
Djibouti	-1.8	-2.3	-1.9	0.2	-2.4	-1.6	-5.4
Georgia [2]	-3.2	-1.3	-0.2	-2.4	-2.8	-1.2	0.5
Kyrgyz Republic [2]	-9.2	-4.7	-4.4	-3.7	-2.1	-2.2	-2.0
Mauritania [4]	-5.2	-11.8	-4.8	-7.1	35.7	-2.8	-3.0
Sudan	0.0	0.7	1.5	-1.8	-4.2	-3.8	-2.9
Tajikistan [2]	-4.0	-1.8	-2.4	-2.9	1.7	-8.2	-11.3
Uzbekistan [2]	-2.5	0.1	0.6	1.2	5.2	2.3	2.1
Yemen [2]	0.1	-4.2	-2.2	-1.8	0.8	-3.7	-3.4
Emerging markets	**-4.3**	**-4.8**	**-4.4**	**-5.2**	**-5.3**	**-5.0**	**-4.5**
Egypt [2]	-3.2	-9.0	-8.3	-8.4	-9.2	-7.7	-6.9
Jordan	-4.5	-1.0	-1.7	-5.0	-3.8	-4.1	-3.0
Lebanon	-17.4	-13.3	-8.6	-8.4	-11.1	-12.2	-9.1
Morocco	-4.1	-4.3	-3.8	-4.7	-1.7	-2.1	-2.0
Pakistan [2]	-4.4	-1.3	-1.8	-3.0	-3.7	-4.0	-3.7
Tunisia	-3.4	-3.2	-2.6	-3.0	-2.8	-2.7	-2.6
Memorandum							
CCA	**-2.6**	**0.8**	**1.1**	**2.8**	**4.1**	**3.3**	**8.8**
MENA	**-1.0**	**-0.1**	**2.5**	**6.1**	**7.0**	**5.8**	**6.1**
Of which							
GCC	**-0.7**	**3.4**	**11.0**	**19.0**	**22.8**	**21.0**	**20.4**
Maghreb	**0.0**	**1.0**	**2.1**	**8.8**	**10.7**	**7.3**	**8.1**

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

[1] Excludes special accounts and net lending.
[2] General government.
[3] Consolidated accounts of the federal government, and the emirates Abu Dhabi, Dubai, and Sharjah.
[4] Includes oil revenue transferred to the oil fund.

Table 8. Central Government Total Revenue Excluding Grants

(In percent of GDP)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	**25.5**	**27.4**	**28.7**	**31.5**	**33.2**	**32.3**	**32.4**
Oil exporters	**29.0**	**31.9**	**34.1**	**38.7**	**40.6**	**39.4**	**39.6**
Algeria	33.0	36.9	36.1	41.1	42.7	43.2	43.7
Azerbaijan	21.0	26.7	26.8	25.0	29.6	33.1	58.9
Bahrain	28.9	30.8	30.6	30.8	31.7	30.7	31.0
Iran	20.9	24.1	24.5	29.7	28.9	26.8	24.9
Iraq [1]	...	...	70.5	79.5	68.0	55.8	57.2
Kazakhstan [1]	20.9	25.4	24.6	28.1	27.5	29.7	29.7
Kuwait	64.0	54.7	56.9	62.2	68.9	70.7	69.3
Libya	40.9	53.9	58.5	68.6	71.7	67.9	68.4
Oman	42.7	45.2	45.1	48.1	49.6	47.4	48.6
Qatar	38.3	35.9	47.7	42.0	44.4	47.3	43.5
Saudi Arabia	30.0	34.5	42.2	48.0	51.9	48.6	47.4
Syria [1]	27.1	28.8	27.2	24.0	21.9	21.9	22.2
Turkmenistan [1]	20.9	18.0	19.3	20.5	19.8	17.6	17.6
United Arab Emirates [2]	35.0	30.7	35.4	41.7	50.5	50.8	50.5
Low-income countries	**20.7**	**22.5**	**24.1**	**24.8**	**25.1**	**24.1**	**24.9**
Afghanistan	3.2	4.5	4.5	5.7	7.0	7.2	7.7
Armenia	16.1	14.6	14.9	15.3	15.3	16.4	16.1
Djibouti	23.9	28.0	28.8	30.9	31.2	29.5	27.6
Georgia [1, 3]	15.5	18.6	24.2	22.5	24.8	27.4	27.2
Kyrgyz Republic [1]	20.0	21.7	22.3	23.7	25.8	28.1	27.9
Mauritania [4]	22.3	30.7	29.7	24.5	29.4	25.2	26.4
Sudan	9.5	16.0	19.7	21.7	19.0	18.1	19.8
Tajikistan [1]	14.1	17.0	17.3	19.3	18.7	21.2	21.0
Uzbekistan [1]	36.7	32.3	31.4	30.4	34.1	32.4	33.5
Yemen [1]	30.7	30.7	31.3	34.5	36.4	31.7	30.9
Emerging markets	**20.2**	**20.5**	**20.1**	**20.1**	**21.8**	**21.5**	**21.2**
Egypt [1]	27.4	25.4	24.6	24.3	28.2	27.3	25.7
Jordan	26.1	23.0	25.7	28.2	31.2	31.0	30.7
Lebanon	18.7	22.1	23.1	22.8	21.9	22.9	23.4
Morocco	23.0	21.6	22.5	23.8	25.1	24.0	23.9
Pakistan [1]	13.4	14.8	14.1	13.8	14.2	14.9	15.5
Tunisia	24.1	23.7	23.8	23.6	23.8	22.9	22.4
Memorandum							
CCA	**24.0**	**25.6**	**25.4**	**26.6**	**28.0**	**29.8**	**35.6**
MENA	**27.7**	**29.6**	**31.5**	**35.1**	**37.1**	**35.7**	**34.9**
Of which							
GCC	**34.9**	**36.3**	**42.3**	**47.3**	**52.1**	**50.4**	**49.5**
Maghreb	**30.7**	**33.9**	**34.3**	**38.1**	**39.6**	**38.9**	**39.1**

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] Revised for 2002–04 to include extrabudgetary revenues.
[4] Includes oil revenue transferred to the oil fund.

Table 9. Oil Exporters: Central Government Non-Oil Fiscal Balance

(In percent of non-oil GDP)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Oil exporters	**-26.6**	**-30.9**	**-31.2**	**-35.8**	**-36.7**	**-34.9**	**-31.6**
Algeria	-29.6	-27.8	-30.2	-35.1	-37.9	-40.4	-40.9
Azerbaijan	-8.8	-17.3	-13.2	-12.9	-32.7	-40.8	-45.7
Bahrain	-25.4	-33.0	-28.9	-29.5	-32.7	-31.1	-29.7
Iran	-14.5	-20.0	-20.3	-27.9	-28.1	-26.7	-21.7
Iraq [1]	...	...	-277.5	-130.8	-98.2	-98.6	-99.1
Kazakhstan [1]	-5.4	-4.3	-6.5	-7.4	-4.3	-5.8	-6.9
Kuwait	-39.8	-44.5	-42.6	-38.4	-52.2	-45.4	-39.0
Libya	-34.8	-79.1	-98.9	-124.1	-108.6	-91.6	-85.8
Oman	-54.3	-57.8	-62.9	-63.6	-60.0	-61.3	-48.9
Qatar	-48.6	-40.6	-33.0	-47.1	-49.6	-49.2	-39.8
Saudi Arabia	-41.9	-46.7	-45.8	-50.9	-54.0	-49.7	-52.4
Syria [1]	-17.7	-22.0	-19.4	-15.3	-13.4	-11.0	-10.7
Turkmenistan [1]	-10.9	-12.1	-10.0	-13.1	-7.9	-14.3	-16.7
United Arab Emirates [2]	-32.3	-29.3	-22.6	-17.1	-15.3	-13.0	-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. Oil Exporters: Central Government Non-Oil Revenue

(In percent of non-oil GDP)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Oil exporters	**14.7**	**13.8**	**15.1**	**15.8**	**17.1**	**17.9**	**16.5**
Algeria	16.5	17.5	16.9	17.6	17.4	18.5	18.7
Azerbaijan [1]	22.2	22.1	24.3	27.4	31.9	31.9	31.9
Bahrain	12.3	10.5	10.4	10.2	9.7	8.8	8.7
Iran	10.3	9.6	10.1	11.6	12.4	11.1	11.5
Iraq [2]	...	...	3.9	7.5	6.8	5.3	6.6
Kazakhstan [2]	23.3	26.0	25.0	27.0	25.2	28.7	28.3
Kuwait	38.2	22.9	25.8	29.9	36.4	37.2	39.2
Libya	21.5	16.8	21.9	17.0	20.3	22.2	22.0
Oman	14.8	16.6	13.6	13.9	15.3	14.6	18.3
Qatar	25.9	31.2	35.6	34.2	41.4	44.0	44.6
Saudi Arabia	11.5	9.8	12.8	11.2	12.4	15.1	13.1
Syria [2]	18.0	17.8	20.3	22.3	22.8	22.7	23.5
Turkmenistan [2]	15.7	10.7	13.6	13.2	12.8	9.9	10.7
United Arab Emirates [3]	16.8	10.6	13.4	16.3	19.3	20.6	19.9

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	Est. 2007	Proj. 2008
Middle East and Central Asia	**27.3**	**28.1**	**27.2**	**27.1**	**28.2**	**28.3**	**27.5**
Oil exporters	**28.9**	**29.3**	**28.4**	**27.9**	**28.8**	**29.2**	**28.3**
Algeria [1]	31.0	35.1	32.5	25.6	28.2	32.2	32.2
Azerbaijan [2]	23.1	28.5	25.9	22.7	29.0	28.6	28.5
Bahrain	29.2	29.5	26.4	26.3	27.0	26.1	24.8
Iran	20.9	22.8	22.8	28.5	29.8	28.0	25.7
Iraq [3]	...	...	120.8	96.6	68.5	69.1	62.7
Kazakhstan [3]	23.0	22.6	22.1	22.3	20.2	24.1	24.4
Kuwait	43.5	37.3	34.6	28.3	35.5	35.0	32.9
Libya	35.8	39.1	43.4	40.4	34.0	40.5	37.0
Oman	38.5	39.5	39.8	35.2	33.8	36.3	32.3
Qatar	36.0	29.4	31.3	32.9	34.7	35.1	30.6
Saudi Arabia	34.4	33.3	32.1	29.6	30.5	30.4	31.1
Syria [3]	28.1	31.4	31.4	28.4	27.6	26.6	27.6
Turkmenistan [3]	21.3	19.4	18.9	19.7	14.6	16.9	19.0
United Arab Emirates [4]	35.8	28.2	24.9	21.4	21.7	21.3	21.3
Low-income countries	**23.2**	**24.1**	**24.4**	**26.5**	**26.4**	**26.8**	**27.5**
Afghanistan	8.5	14.0	13.9	14.7	18.4	20.2	20.9
Armenia	22.4	18.9	17.1	18.3	17.7	19.1	19.8
Djibouti	32.3	36.3	37.5	36.8	37.4	37.0	36.4
Georgia [3]	19.8	18.7	18.9	24.9	29.2	29.5	28.0
Kyrgyz Republic [3]	30.3	27.2	27.7	28.4	28.7	32.3	31.9
Mauritania [3]	30.5	47.2	37.7	33.7	28.3	29.8	32.3
Sudan	9.5	15.3	18.2	23.4	23.7	22.5	23.3
Tajikistan [3]	18.2	19.1	20.3	23.0	21.7	31.0	34.2
Uzbekistan [3]	39.7	33.4	31.6	29.5	29.2	30.3	31.6
Yemen [3]	31.1	35.3	34.2	36.8	35.6	35.9	35.5
Emerging markets	**25.2**	**26.8**	**25.5**	**25.8**	**27.6**	**27.1**	**26.1**
Egypt [3]	31.2	35.2	33.9	33.2	37.7	35.4	32.9
Jordan	34.8	35.8	38.3	38.3	38.4	40.3	36.5
Lebanon	36.3	35.4	31.8	31.2	35.9	38.7	35.1
Morocco [5]	27.2	26.0	26.5	29.0	27.2	26.5	26.2
Pakistan [3]	18.6	18.5	16.4	17.2	18.5	19.2	19.6
Tunisia	27.8	27.1	26.6	26.9	26.7	25.8	25.3
Memorandum							
CCA	**27.0**	**25.4**	**24.3**	**24.0**	**24.2**	**26.7**	**27.1**
MENA	**28.9**	**29.9**	**29.3**	**29.2**	**30.4**	**30.1**	**29.0**
Of which							
GCC	**35.6**	**32.9**	**31.3**	**28.3**	**29.4**	**29.4**	**29.1**
Maghreb	**30.8**	**33.0**	**32.3**	**29.5**	**29.4**	**31.8**	**31.2**

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

[1] Excludes special accounts and net lending.
[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	Est. 2007	Proj. 2008
Middle East and Central Asia	**67.8**	**61.7**	**55.0**	**46.7**	**40.3**	**36.0**	**33.0**
Oil exporters	**55.0**	**42.6**	**35.6**	**24.4**	**19.8**	**16.0**	**13.9**
Algeria	71.9	43.8	36.6	28.2	23.2	18.7	15.8
Azerbaijan	22.0	21.8	20.2	13.3	10.8	10.3	9.2
Bahrain	29.0	36.9	34.7	30.6	27.7	24.0	22.3
Iran	28.4	26.4	26.3	22.2	19.7	15.7	14.3
Iraq [1]	...	...	390.1	229.2	115.4	90.9	83.3
Kazakhstan [1]	21.1	14.9	11.4	8.1	6.6	5.8	5.4
Kuwait	40.0	23.0	17.4	11.8	7.6	6.5	5.8
Libya	48.6	26.7	1.6	1.1	0.9	0.0	0.0
Oman	27.6	16.3	15.3	9.5	7.4	6.0	5.0
Qatar	60.2	41.6	27.8	19.3	15.0	12.1	10.1
Saudi Arabia	96.7	82.0	65.0	38.9	27.9	20.1	15.0
Syria [1]	133.4	121.0	109.7	56.8	51.3	49.7	50.1
Turkmenistan [1]	42.1	13.6	9.2	5.4	3.3	2.0	1.3
United Arab Emirates [1]	5.5	6.6	8.4	9.3	10.1	10.6	11.0
Low-income countries	**111.9**	**98.3**	**82.0**	**68.3**	**54.5**	**49.9**	**46.3**
Afghanistan	...	...	...	...	...	...	...
Armenia	41.5	40.9	32.4	24.3	18.7	17.9	16.8
Djibouti	61.9	70.0	69.5	64.2	60.7	56.9	58.0
Georgia [1]	65.7	59.7	45.7	35.7	28.6	22.0	18.7
Kyrgyz Republic [1]	117.4	106.9	92.7	85.1	74.7	71.6	67.7
Mauritania	213.1	259.1	232.7	175.5	119.2	127.6	108.0
Sudan	180.6	149.9	125.0	105.4	83.2	73.7	67.7
Tajikistan [1]	102.8	64.8	43.1	42.3	33.6	35.8	42.2
Uzbekistan [1]	42.9	41.6	35.1	28.2	20.8	17.6	15.4
Yemen [1]	63.3	56.8	52.1	43.8	38.9	37.3	37.3
Emerging markets	**80.2**	**87.5**	**83.4**	**81.7**	**73.6**	**68.6**	**64.2**
Egypt [1]	82.7	114.8	112.9	112.8	98.8	88.5	83.1
Jordan [1]	106.7	99.6	91.8	84.2	81.5	75.4	69.7
Lebanon	143.8	168.6	167.1	178.7	178.1	173.4	142.7
Morocco	69.6	60.6	58.4	61.7	57.2	57.1	54.7
Pakistan [1]	81.1	74.5	67.8	62.9	57.3	54.6	51.0
Tunisia [1]	60.2	60.5	59.4	58.3	54.0	52.4	50.6
Memorandum							
CCA	**37.0**	**31.0**	**25.1**	**19.4**	**15.3**	**13.6**	**12.4**
MENA	**68.3**	**63.0**	**56.3**	**47.2**	**40.4**	**35.7**	**32.6**
Of which							
GCC	**67.5**	**54.9**	**43.8**	**27.5**	**20.4**	**15.7**	**12.7**
Maghreb	**68.3**	**51.1**	**43.7**	**39.7**	**35.3**	**32.9**	**30.5**

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	Est. 2007	Proj. 2008
Middle East and Central Asia	**294.5**	**427.5**	**571.6**	**773.1**	**930.1**	**1,034.2**	**1,159.1**
Oil exporters	**228.0**	**339.9**	**466.2**	**650.2**	**787.2**	**872.8**	**978.7**
Algeria	17.3	26.0	34.1	48.8	57.4	61.8	69.6
Azerbaijan	1.9	3.1	4.2	8.3	14.0	20.6	29.4
Bahrain	5.9	7.9	9.1	11.8	13.5	16.1	17.0
Iran	25.4	39.5	49.8	70.8	84.2	94.3	99.2
Iraq	...	...	17.8	19.9	28.6	32.3	37.6
Kazakhstan	9.3	14.9	22.6	30.5	41.6	48.5	54.8
Kuwait	16.3	24.9	33.8	51.7	60.8	63.9	71.2
Libya	11.0	15.1	20.8	31.4	39.4	45.4	55.7
Oman	9.8	12.3	14.1	19.5	22.9	24.2	26.9
Qatar	9.9	14.7	20.7	29.4	38.8	50.5	63.9
Saudi Arabia	66.6	99.1	132.0	187.5	217.1	226.4	245.2
Syria	6.4	8.7	9.8	12.0	12.5	14.3	14.4
Turkmenistan	2.2	3.7	4.2	5.3	7.5	9.3	11.0
United Arab Emirates	46.1	70.0	93.2	123.2	149.3	165.2	182.8
Low-income countries	**11.4**	**17.3**	**21.2**	**25.6**	**30.5**	**35.1**	**40.1**
Afghanistan	1.3	2.0	1.7	1.9	2.0	2.1	2.2
Armenia	0.5	0.9	1.0	1.3	1.4	1.7	1.9
Djibouti	0.2	0.3	0.3	0.3	0.3	0.5	0.6
Georgia	0.9	1.3	1.8	2.5	3.1	3.6	4.0
Kyrgyz Republic	0.6	0.7	1.0	1.0	1.4	1.9	2.3
Mauritania	0.4	0.4	0.5	0.7	1.5	1.4	1.5
Sudan	1.4	2.6	3.8	5.0	6.0	7.8	9.7
Tajikistan	0.7	1.0	1.2	0.6	0.7	0.7	0.7
Uzbekistan	3.2	3.8	4.8	5.4	6.4	8.0	9.2
Yemen	3.2	4.3	5.0	6.8	7.9	7.4	7.9
Emerging markets	**55.1**	**70.3**	**84.2**	**97.3**	**112.3**	**126.4**	**140.3**
Egypt	15.1	18.0	22.9	28.0	33.0	38.4	44.2
Jordan	3.8	4.8	6.0	6.6	7.7	8.9	9.9
Lebanon	6.4	8.7	10.5	11.3	13.3	13.7	14.8
Morocco	10.9	14.2	16.6	19.3	22.5	25.7	28.7
Pakistan	10.0	13.7	15.1	17.8	20.3	21.2	22.6
Tunisia	8.9	10.8	13.2	14.4	15.5	18.5	20.1
Memorandum							
CCA	**19.2**	**29.5**	**40.9**	**55.0**	**76.0**	**94.3**	**113.4**
MENA	**265.3**	**384.3**	**515.6**	**700.3**	**833.8**	**918.8**	**1,023.1**
Of which							
GCC	**154.6**	**228.9**	**302.9**	**423.1**	**502.3**	**546.2**	**606.9**
Maghreb	**48.5**	**66.6**	**85.2**	**114.6**	**136.2**	**152.7**	**175.7**

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	Est. 2007	Proj. 2008
Middle East and Central Asia	**265.3**	**350.9**	**465.6**	**563.1**	**674.7**	**800.7**	**902.3**
Oil exporters	**179.3**	**248.5**	**340.1**	**410.0**	**491.6**	**589.6**	**666.4**
Algeria	12.1	16.3	21.8	24.6	25.3	38.3	44.7
Azerbaijan	2.3	4.8	6.3	7.0	8.1	8.6	9.6
Bahrain	4.7	6.2	7.0	8.6	9.6	10.9	12.0
Iran	20.5	39.3	49.0	55.0	64.8	73.9	80.9
Iraq	...	...	24.3	25.0	26.9	37.2	38.3
Kazakhstan	9.1	13.3	18.9	25.5	32.8	39.6	43.4
Kuwait	12.6	16.5	19.2	24.5	27.4	32.4	37.8
Libya	6.2	8.8	10.7	13.2	15.8	25.6	31.1
Oman	6.8	8.3	10.6	13.1	16.4	18.6	19.3
Qatar	5.2	6.7	8.3	13.3	21.3	26.7	33.3
Saudi Arabia	51.5	59.2	70.7	88.3	113.9	137.5	160.0
Syria	5.6	8.2	10.5	12.8	15.0	16.4	16.9
Turkmenistan	2.3	3.4	4.1	3.9	3.6	5.4	6.6
United Arab Emirates	40.4	57.7	78.5	95.1	110.6	118.7	132.6
Low-income countries	**14.0**	**21.6**	**26.2**	**33.1**	**40.4**	**47.6**	**53.0**
Afghanistan	2.7	4.3	4.4	5.0	5.6	6.0	6.4
Armenia	1.0	1.4	1.5	2.0	2.4	3.1	3.7
Djibouti	0.3	0.3	0.3	0.4	0.4	0.7	0.8
Georgia	1.4	1.9	2.7	3.6	4.8	5.8	6.5
Kyrgyz Republic	0.7	0.9	1.1	1.4	2.3	3.4	3.8
Mauritania	0.6	0.7	1.2	1.8	1.6	1.7	1.8
Sudan	2.3	3.4	4.7	7.7	10.0	10.8	12.5
Tajikistan	0.8	1.1	1.5	1.2	1.6	2.4	2.6
Uzbekistan	3.1	3.1	3.9	4.1	4.4	5.3	6.3
Yemen	3.3	4.5	4.9	6.0	7.3	8.5	8.6
Emerging markets	**72.1**	**80.8**	**99.3**	**120.0**	**142.7**	**163.5**	**182.9**
Egypt	21.4	19.6	23.3	30.2	38.2	44.9	53.4
Jordan	5.7	7.0	9.4	11.9	13.0	14.4	15.9
Lebanon	11.0	12.6	15.2	14.9	16.0	18.0	19.3
Morocco	12.3	16.0	19.8	23.0	26.2	31.6	35.2
Pakistan	12.1	14.0	17.7	25.6	33.2	35.3	38.1
Tunisia	9.6	11.7	13.9	14.4	16.1	19.2	21.0
Memorandum							
CCA	**20.8**	**29.9**	**40.0**	**48.6**	**60.0**	**73.5**	**82.4**
MENA	**232.5**	**307.0**	**407.9**	**488.9**	**581.4**	**691.8**	**781.7**
Of which							
GCC	**121.1**	**154.5**	**194.5**	**242.9**	**299.2**	**344.7**	**395.0**
Maghreb	**40.8**	**53.5**	**67.4**	**77.1**	**85.0**	**116.4**	**133.7**

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	Est. 2007	Proj. 2008
Middle East and Central Asia	**26.4**	**69.5**	**96.9**	**214.7**	**265.8**	**249.4**	**281.3**
Oil exporters	**32.5**	**65.1**	**95.6**	**219.4**	**275.1**	**264.3**	**297.3**
Algeria	3.9	8.8	11.1	21.2	29.2	24.4	25.7
Azerbaijan	-0.6	-2.0	-2.6	0.2	3.1	9.8	17.7
Bahrain	0.0	0.2	0.4	1.6	2.0	2.9	2.8
Iran	5.3	0.8	1.4	16.6	19.4	21.0	21.3
Iraq	...	...	-9.7	-0.2	5.7	-1.6	0.7
Kazakhstan	-0.6	-0.3	0.3	-1.1	-1.8	-2.1	-1.2
Kuwait	6.9	9.4	18.2	32.7	41.3	39.1	40.4
Libya	4.2	5.2	7.4	17.3	24.3	19.7	24.4
Oman	0.6	0.9	0.3	2.7	3.0	1.7	3.2
Qatar	2.6	5.9	7.1	14.2	16.4	22.3	29.5
Saudi Arabia	4.6	28.1	52.0	90.1	95.5	83.1	81.8
Syria	0.8	0.2	-0.8	-1.2	-2.1	-2.1	-2.6
Turkmenistan	-0.1	0.3	0.1	0.9	3.4	3.4	4.0
United Arab Emirates	4.8	7.6	10.3	24.3	35.9	42.8	49.5
Low-income countries	**-1.5**	**-1.0**	**-1.0**	**-2.0**	**-3.3**	**-4.7**	**-3.9**
Afghanistan	-0.1	0.1	0.2	0.0	-0.1	-0.1	-0.3
Armenia	-0.3	-0.2	-0.2	-0.2	-0.1	-0.3	-0.4
Djibouti	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.2
Georgia	-0.3	-0.4	-0.6	-0.6	-1.1	-1.5	-1.7
Kyrgyz Republic	-0.1	0.0	0.1	0.1	-0.2	-0.6	-0.6
Mauritania	0.0	-0.2	-0.5	-0.9	0.0	-0.2	-0.2
Sudan	-1.2	-1.4	-1.4	-3.0	-5.5	-5.0	-4.8
Tajikistan	0.0	0.0	-0.1	-0.1	-0.1	-0.4	-0.5
Uzbekistan	0.0	0.9	1.2	1.9	3.2	4.3	4.9
Yemen	0.5	0.2	0.2	0.6	0.6	-0.6	-0.1
Emerging markets	**-4.6**	**5.4**	**2.3**	**-2.7**	**-6.0**	**-10.2**	**-12.1**
Egypt	-1.0	1.9	3.4	2.9	0.9	1.8	1.2
Jordan	0.2	1.2	0.0	-2.3	-2.0	-2.0	-2.1
Lebanon	-3.4	-2.6	-3.3	-2.9	-1.4	-2.5	-2.4
Morocco	0.5	1.6	1.0	1.4	2.2	0.5	0.2
Pakistan	-0.1	4.1	1.8	-1.5	-5.0	-7.1	-8.0
Tunisia	-0.7	-0.7	-0.6	-0.3	-0.7	-0.9	-1.0
Memorandum							
CCA	**-2.0**	**-1.7**	**-1.7**	**1.1**	**6.4**	**12.4**	**22.1**
MENA	**28.5**	**67.2**	**96.8**	**215.1**	**264.4**	**244.1**	**267.2**
Of which							
GCC	**19.5**	**52.1**	**88.3**	**165.6**	**194.1**	**191.8**	**207.3**
Maghreb	**7.8**	**14.7**	**18.4**	**38.7**	**54.9**	**43.6**	**49.1**

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	Est. 2007	Proj. 2008
Middle East and Central Asia	**2.9**	**6.8**	**8.1**	**14.8**	**15.6**	**12.7**	**12.5**
Oil exporters	**5.4**	**9.2**	**10.9**	**20.0**	**21.1**	**17.4**	**17.2**
Algeria	7.1	13.0	13.1	20.7	25.6	19.4	18.4
Azerbaijan	-12.3	-27.8	-29.8	1.3	15.7	31.4	39.9
Bahrain	0.1	2.3	4.0	11.9	12.8	17.2	15.2
Iran	5.1	0.6	0.9	8.8	8.7	7.6	6.6
Iraq	...	...	-37.6	-0.5	11.4	-2.5	0.9
Kazakhstan	-2.5	-0.9	0.8	-1.8	-2.2	-2.2	-1.1
Kuwait	19.9	19.7	30.6	40.5	43.0	37.8	35.3
Libya	12.3	21.5	24.3	41.6	48.1	29.9	30.7
Oman	1.4	3.9	1.2	8.7	8.4	4.1	7.1
Qatar	13.3	25.3	22.4	33.4	31.0	33.8	35.7
Saudi Arabia	2.1	13.1	20.7	28.5	27.4	22.2	20.1
Syria	4.0	0.8	-3.2	-4.1	-6.1	-5.6	-6.6
Turkmenistan	-6.2	2.7	0.6	5.1	15.3	13.0	12.5
United Arab Emirates	7.1	8.6	10.0	18.3	22.0	22.6	23.0
Low-income countries	**-3.5**	**-1.7**	**-1.5**	**-2.4**	**-3.1**	**-3.6**	**-2.6**
Afghanistan	-3.7	3.0	3.7	0.5	-1.4	-1.4	-2.4
Armenia	-13.8	-6.8	-4.5	-3.9	-1.4	-4.0	-4.2
Djibouti	-5.3	3.4	-1.3	1.2	-8.9	-14.5	-18.8
Georgia	-9.1	-9.3	-12.2	-9.8	-13.8	-15.7	-15.2
Kyrgyz Republic	-9.2	-2.2	4.9	3.2	-6.6	-17.9	-15.1
Mauritania	-4.3	-13.6	-34.6	-47.2	-1.3	-6.8	-7.0
Sudan	-9.7	-7.8	-6.5	-10.7	-14.7	-10.7	-8.5
Tajikistan	-3.7	-1.3	-3.9	-2.5	-2.9	-11.6	-12.5
Uzbekistan	0.1	8.7	10.1	13.6	18.8	21.1	21.0
Yemen	5.4	1.5	1.6	3.8	3.2	-2.9	-0.6
Emerging markets	**-1.8**	**2.0**	**0.8**	**-0.8**	**-1.6**	**-2.4**	**-2.6**
Egypt	-1.1	2.4	4.3	3.2	0.8	1.4	0.8
Jordan	2.3	11.6	0.0	-17.9	-14.0	-12.6	-11.9
Lebanon	-19.9	-13.2	-15.5	-13.6	-6.2	-10.6	-9.4
Morocco	1.2	3.2	1.7	2.4	3.4	0.7	0.2
Pakistan	-0.2	4.9	1.8	-1.4	-3.9	-4.9	-4.9
Tunisia	-3.7	-2.9	-2.0	-1.1	-2.3	-2.6	-2.7
Memorandum							
CCA	**-4.1**	**-3.0**	**-2.2**	**1.1**	**4.7**	**7.2**	**10.7**
MENA	**3.6**	**7.7**	**9.5**	**17.4**	**18.4**	**14.8**	**14.4**
Of which							
GCC	**5.5**	**12.8**	**18.4**	**26.9**	**27.2**	**24.3**	**23.5**
Maghreb	**5.3**	**8.7**	**9.1**	**16.6**	**20.9**	**14.5**	**14.5**

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	**-0.6**	**-8.4**	**-2.9**	**1.1**	**2.8**
Oil exporters	**0.2**	**-6.7**	**-3.0**	**0.7**	**2.1**
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	-2.9
Iran	4.6	-2.1	1.1	6.3	4.1
Iraq	...	...	...	...	...
Kazakhstan	-3.3	-3.6	5.8	3.1	7.8
Kuwait	1.7	-7.2	-5.1	2.1	0.9
Libya	-10.3	-13.9	-9.0	-5.6	-6.7
Oman	-0.4	-8.7	-6.3	-1.3	3.1
Qatar	2.3	-5.7	-0.1	7.1	8.3
Saudi Arabia	0.1	-8.5	-6.7	-2.6	-0.5
Syria	-4.6	3.4	-0.2	1.7	10.3
Turkmenistan	16.8	-6.1	-3.6	2.4	4.2
United Arab Emirates	3.1	-6.8	-3.5	2.0	4.1
Low-income countries	**-5.3**	**-8.0**	**0.2**	**3.9**	**7.9**
Afghanistan	-5.2	6.0	8.3	1.8	-0.4
Armenia	0.8	-9.0	4.1	9.7	6.6
Djibouti	3.1	-9.3	-3.6	-1.1	-1.2
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	1.3
Sudan	0.7	-1.2	1.7	10.3	15.9
Tajikistan	-2.0	-5.4	0.3	-5.5	-2.7
Uzbekistan	-18.9	-22.1	-8.2	-6.5	-2.0
Yemen	6.0	-3.4	4.3	4.0	9.7
Emerging markets	**-1.2**	**-12.4**	**-3.1**	**1.6**	**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	0.2	5.3
Tunisia	-0.7	-5.1	-3.5	-4.5	-0.4
Memorandum					
CCA	**-8.1**	**-9.2**	**1.3**	**1.9**	**5.6**
MENA	**0.2**	**-9.1**	**-3.3**	**1.1**	**2.3**
Of which					
GCC	**0.9**	**-7.9**	**-5.5**	**-0.4**	**1.4**
Maghreb	**-3.3**	**-7.4**	**-2.0**	**-3.5**	**-0.8**

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

Table 18. Gross Official Reserves

(In billions of U.S. dollars)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	**162.5**	**261.0**	**332.3**	**451.1**	**625.7**	**786.2**	**949.6**
Oil exporters	**122.3**	**196.9**	**261.8**	**374.6**	**531.0**	**674.2**	**823.5**
Algeria	12.9	32.9	43.1	56.2	77.8	103.4	129.6
Azerbaijan	0.6	0.8	1.1	1.2	2.5	5.1	6.6
Bahrain	1.2	1.4	1.6	1.9	1.0	4.4	5.6
Iran	12.5	24.7	33.3	46.3	59.9	76.0	92.0
Iraq	4.7	5.7	7.9	12.0	19.7	27.4	29.2
Kazakhstan	2.3	5.0	9.3	7.1	19.1	19.9	20.0
Kuwait	7.1	7.7	8.3	9.0	12.6	19.1	26.6
Libya	10.5	19.5	25.6	39.3	59.2	79.7	105.4
Oman	2.6	3.6	3.6	4.5	3.4	4.5	1.4
Qatar	1.3	2.9	3.4	4.6	5.4	6.5	8.1
Saudi Arabia [1]	45.2	59.8	87.9	153.2	225.2	277.1	341.0
Syria	12.5	17.9	18.1	18.2	17.2	16.7	16.2
Turkmenistan	...	...	...	...	...	...	...
United Arab Emirates	12.7	15.1	18.7	21.3	27.9	34.3	41.8
Low-income countries	**4.8**	**8.0**	**10.4**	**12.5**	**16.4**	**20.7**	**25.2**
Afghanistan	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Armenia	0.4	0.5	0.6	0.8	1.1	1.4	1.6
Djibouti	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Georgia	0.1	0.2	0.4	0.5	0.9	1.5	1.7
Kyrgyz Republic	0.3	0.4	0.5	0.6	0.8	0.9	1.1
Mauritania	0.1	0.0	0.0	0.1	0.2	0.2	0.3
Sudan	0.1	0.5	1.3	2.1	1.7	1.7	2.2
Tajikistan	0.1	0.1	0.2	0.2	0.3	0.3	0.3
Uzbekistan	1.2	1.7	2.1	2.9	4.7	6.5	8.7
Yemen	2.5	4.4	5.1	5.3	6.8	8.1	9.2
Emerging markets	**35.3**	**56.1**	**60.0**	**64.0**	**78.3**	**91.3**	**100.8**
Egypt	16.4	14.8	14.8	19.3	23.0	28.2	32.6
Jordan	2.4	4.7	4.8	4.7	6.2	6.6	6.5
Lebanon	5.9	10.3	9.6	9.6	11.4	11.1	12.3
Morocco	6.6	13.7	16.3	16.1	20.2	23.1	24.5
Pakistan	1.9	9.5	10.6	9.8	10.8	14.3	16.2
Tunisia	2.1	3.0	4.0	4.4	6.8	8.0	8.7
Memorandum							
CCA	**5.1**	**8.6**	**14.2**	**13.2**	**29.3**	**35.7**	**40.0**
MENA	**155.5**	**242.9**	**307.5**	**428.1**	**585.6**	**736.2**	**893.4**
Of which							
GCC	**70.1**	**90.5**	**123.4**	**194.3**	**275.5**	**346.0**	**424.5**
Maghreb	**32.1**	**69.2**	**89.1**	**116.1**	**164.2**	**214.3**	**268.4**

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

[1] Saudi Arabia Monetary Agency gross foreign assets.

Table 19. Total Gross Public and Private External Debt

(In percent of GDP) [1]

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	**37.8**	**34.1**	**32.0**	**28.8**	**29.5**	**28.7**	**27.3**
Oil exporters	**28.6**	**23.5**	**22.8**	**20.8**	**23.7**	**24.9**	**24.3**
Algeria	49.6	34.3	25.7	16.8	4.9	4.4	3.9
Azerbaijan [2]	18.6	19.7	18.5	12.5	10.0	9.5	8.4
Bahrain	54.0	51.2	62.4	53.8	64.9	153.6	144.9
Iran	10.0	12.7	14.3	12.7	10.4	7.0	5.2
Iraq	...	...	379.0	219.5	110.5	86.6	79.5
Kazakhstan	65.8	74.3	75.8	76.0	90.7	86.6	78.9
Kuwait	31.5	25.6	20.5	20.4	17.6	16.7	15.4
Libya	19.5	23.2	18.3	13.4	11.0	8.4	7.0
Oman	35.8	18.7	17.8	12.2	12.7	11.4	10.2
Qatar [3]	97.4	56.7	47.3	48.1	56.7	61.1	59.9
Saudi Arabia	16.1	11.1	9.4	9.7	10.8	11.4	11.7
Syria	91.1	77.3	73.2	23.3	19.4	16.9	17.4
Turkmenistan	41.3	13.3	9.0	5.4	3.3	2.0	1.3
United Arab Emirates [3]	29.6	18.7	24.0	30.8	47.0	53.6	56.6
Low-income countries	**88.0**	**80.4**	**67.7**	**68.5**	**56.0**	**40.8**	**38.3**
Afghanistan	13.2	14.0	12.8	163.4	146.1	19.3	18.7
Armenia	43.8	39.1	33.1	22.4	18.9	15.6	14.1
Djibouti	53.0	66.8	68.4	60.5	55.6	56.4	62.8
Georgia	52.3	46.2	39.4	31.0	27.7	28.0	35.0
Kyrgyz Republic	117.5	103.5	95.2	85.5	78.1	65.1	57.7
Mauritania	237.4	223.2	210.8	132.9	94.9	97.2	95.5
Sudan	176.3	144.6	119.9	99.3	75.4	63.9	57.5
Tajikistan	110.9	83.8	55.8	50.9	40.9	42.9	47.3
Uzbekistan	32.2	41.9	36.0	28.9	22.7	19.5	17.5
Yemen	60.3	45.0	38.5	30.8	27.3	25.0	23.9
Emerging markets	**48.8**	**51.8**	**50.0**	**44.6**	**41.7**	**37.8**	**33.9**
Egypt	30.6	36.1	37.9	32.2	28.8	23.7	19.8
Jordan [4]	87.2	74.5	66.1	56.6	51.9	45.9	39.8
Lebanon	134.3	174.8	187.5	189.9	197.9	195.4	185.8
Morocco	46.1	33.7	29.5	24.3	24.0	22.2	20.2
Pakistan	44.7	39.9	34.0	31.1	28.1	26.1	24.1
Tunisia	61.8	71.2	69.1	62.3	60.7	59.5	56.2
Memorandum							
CCA	**51.4**	**59.5**	**58.7**	**55.1**	**62.5**	**56.7**	**50.4**
MENA	**36.3**	**32.0**	**29.9**	**25.7**	**25.8**	**26.1**	**25.0**
Of which							
GCC	**26.4**	**18.5**	**18.1**	**19.4**	**24.7**	**29.4**	**30.4**
Maghreb	**45.2**	**39.5**	**33.1**	**24.7**	**18.3**	**16.6**	**15.1**

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] Public and publicly guaranteed debt, as private debt data are not reliable.
[3] Includes mostly foreign liabilities of commercial banks and private institutions that are more than offset by their foreign assets.
[4] 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.

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