World Economic and Financial Surveys

REO Regional Economic Outlook

Middle East and Central Asia

MAY 06

INTERNATIONAL MONETARY FUND

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Contents

The views expressed in this publication are those of the contributors, not 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, and Antoinette Dakanay. In addition, country desk economists and mission chiefs provided important contributions.

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OUTLOOK

HIGHLIGHTS

- **High oil prices and a benign global environment underpinned the Middle East and Central Asia region's strong macroeconomic performance in 2005.** Regional growth averaged over 6 percent, despite ongoing geopolitical tensions. Growth in the region substantially outpaced global growth—which remained strong, with inflation and interest rates at historically low levels. Inflationary pressures in the region were manageable, despite generally accommodative monetary policies that fueled rapid credit growth. Fiscal and external balances improved in most countries, and official reserves rose sharply, even after substantial external debt repayments.

- **Policymakers in the region have so far acted as though the oil price rise is largely temporary.** Most oil exporters continue to budget cautiously, apparently assuming that oil prices will decline. These countries are saving, on average, two-thirds of the higher oil revenues earned since 2002, and their high savings are showing up in the widening of global imbalances. Capital inflows from oil producers have helped some oil importing countries to finance their higher import bills and postpone adjustment.

- **Both producers and consumers have limited the pass-through of higher fuel costs to domestic prices.** The average pass-through for the region since 2002 is only 50 percent; for oil exporters, it is under 20 percent. Although this has helped contain inflation and limit the adverse impact on non-oil activity, the fiscal costs for some oil importers have been high.

- **High oil prices have boosted regional liquidity, fueling booms in local stock and real estate markets.** The stock market booms partly reflect improved fundamentals as well as substantial privatization programs in some countries. However, several equity markets appear to have become overvalued, and reversals have occurred since late 2005.

HIGHLIGHTS *(continued)*

- **The outlook for the region in 2006 is good, but governments will need to adjust policies to better suit a world of high oil prices and address emerging risks:**

  - ***Oil producers should seize the opportunity to increase investment in infrastructure and human capital.*** This higher spending will raise growth rates, lower unemployment and poverty, and help to reduce global imbalances.

  - ***Both oil producers and consumers should reduce oil price subsidies and provide adequate compensation mechanisms for the poor***. This will involve substantial fiscal tightening in some consuming countries.

  - ***Real exchange rate adjustments will be needed in response to permanently higher oil prices.*** There will be pressure on real exchange rates in oil-exporting countries to appreciate. This can occur either through a nominal appreciation or through inflation. Clearly it is preferable if the required real appreciation takes place through a nominal change in the exchange rate, as inflation is costly and difficult to reverse. For oil-exporting countries that are pegged, and are open and have flexible labor markets, the pressures may not show up in the consumer price index, but in asset price inflation. Oil-importing countries will need to tighten monetary policy to limit credit growth and prevent higher inflation from becoming entrenched.

  - ***Policies should be designed to limit the impact on financial systems of further sharp asset price reversals.*** Authorities in some countries may need to tighten supervision to limit banks' exposure to asset markets and promote adequate investor protection.

The *Spring 2006 Regional Economic Outlook,* covering countries in the Middle East and Central Asia Department (MCD), provides a broad synopsis of recent economic developments, highlighting common trends and policies, and prospects and policy issues for the coming year. MCD countries are divided into three groups: oil exporters, low-income countries (LICs), and emerging markets.[1] Countries are grouped based on the share of oil in total exports, per capita income, and access to international capital markets.

Recent Economic Developments and Policies

For the third year in a row, the region's economic growth was well above the growth recorded in the period before oil prices rose sharply. High commodity prices, robust global growth, low international interest rates, and accommodative monetary policies in some countries underpinned average real GDP growth of 6 percent in 2005—in line with the growth performance of the previous two years and well above the 4 percent average growth recorded in 1998–2002. As a result, real per capita GDP growth more than doubled between these two periods, averaging nearly 4 percent a year during 2003–05. Despite this strong growth performance, unemployment rates remain in double digits throughout much of the region, as employment growth has been offset by rapid increases in labor supply.

[1] **Oil exporters** comprise Algeria, Azerbaijan, Bahrain, Iran, Iraq, Kazakhstan, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Syria, Turkmenistan, and the United Arab Emirates (UAE). **LICs** are Afghanistan, Armenia, Djibouti, Georgia, Kyrgyz Republic, Mauritania, Sudan, Tajikistan, Uzbekistan, and Yemen. **Emerging markets** comprise Egypt, Jordan, Lebanon, Morocco, Pakistan, and Tunisia. Afghanistan is included in the data tables but was excluded from the averages for the country groupings, as were Iraq and Turkmenistan, because of incomplete data.

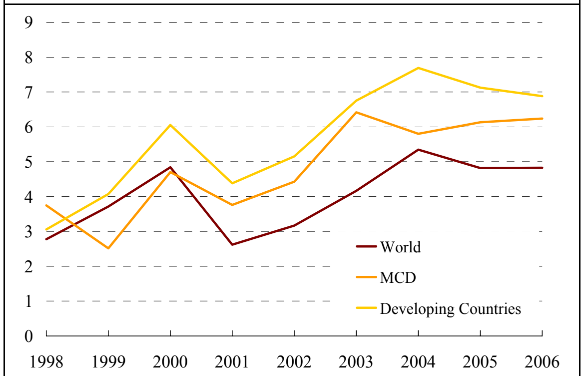
The MCD region's growth performance continued to outpace global growth in 2005 (Figure 1). For the fifth year in a row, average MCD growth substantially exceeded global growth, which was just under 5 percent. However, it continued to lag slightly behind the 7 percent average for all developing countries.

Within the region, growth increased on average in oil-exporting countries and LICs, but slowed in emerging market countries (Figure 2).

- Growth in oil-exporting countries amounted to 6½ percent in 2005, with strong growth in the oil sector in Algeria, Azerbaijan, Kuwait, and the United Arab Emirates (UAE). Hydrocarbon GDP continued to contract in Bahrain, Oman, and Syria, but all three countries recorded significant growth in the non-hydrocarbon sector.
- The LICs' growth performance strengthened in 2005 to an average of 7 percent, bolstered by a recovery in agriculture (Afghanistan, Armenia, Georgia, and Sudan) and robust activity in construction (Armenia and Sudan).
- Growth in emerging market countries slowed, however, reflecting the adverse effects of weather conditions on agricultural output (Morocco), of the Agreement on Textiles and Clothing (ATC) on textile exports (Morocco), and of political instability and security concerns on tourism and domestic demand (Lebanon).

Figure 1. Global Real GDP Growth

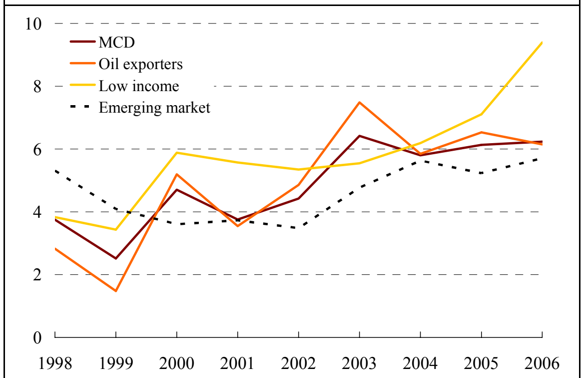
(Annual average change; in percent)



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

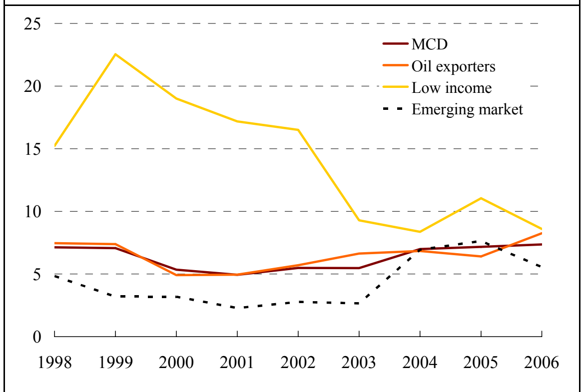
Figure 2. Real GDP Growth in MCD

(Annual average change; in percent)



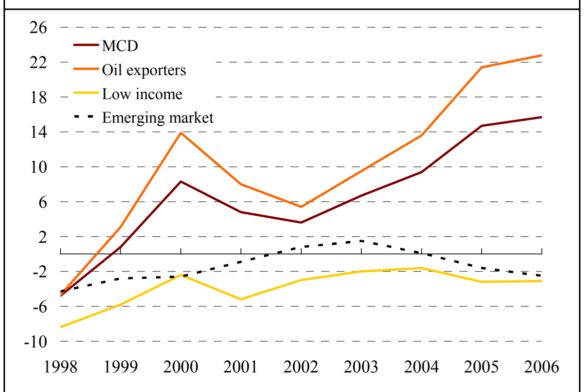
Sources: Data provided by authorities; and IMF staff estimates and projections.

Figure 3. Consumer Price Index
(Average annual change; in percent)



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

Figure 4. External Current Account Balance
(In percent of GDP)



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

- The Commonwealth of Independent States (CIS) countries,[2] which are benefiting from strong growth in commodity exports, remittances, and capital inflows, continued to outperform the rest of the region, with average real GDP growth of over 10 percent in 2005.

Inflation in the region as a whole averaged about 7¼ percent in 2005, continuing the slight upward trend of recent years (Figure 3). The relatively muted pickup so far, despite the increase in oil prices, owes much to governments' policies to limit the pass-through of higher fuel costs. Inflation in emerging markets crept up slightly and averaged almost 8 percent (mainly owing to increases in Egypt and Pakistan). In oil-exporting countries, inflation has been more or less stable over the past few years at about 6½ percent. In LICs, average inflation jumped sharply to 11 percent, mainly because of accommodative monetary policies in Georgia and Uzbekistan. However, taken over a longer period, inflation rates in LICs have declined from double to single digits in recent years, reflecting improvements in the terms of trade and stronger demand management policies.

The MCD region's external current account surplus continued to rise to nearly 15 percent of GDP, owing entirely to the oil-exporting countries' increased surpluses (Figure 4). With oil prices soaring to $53 a barrel

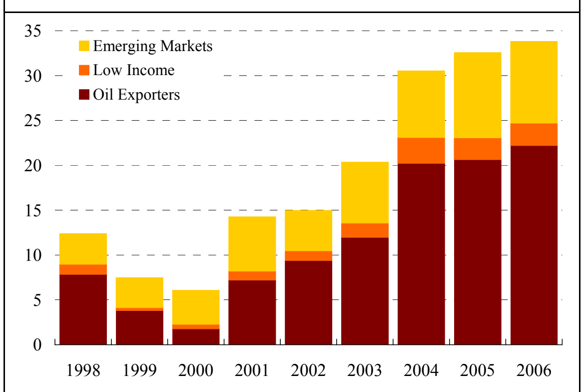
[2]The CIS countries in the MCD region comprise Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan. Turkmenistan was excluded from the analysis owing to limited data availability.

in 2005 from $39 a barrel in 2004, oil exporters' terms of trade improved sharply. These countries saw their current account surpluses increase to over 21 percent of GDP, reflecting their high savings rates (Box 1). Measured by the increase in their current account surpluses, oil-exporting countries saved about two-thirds of the increase in oil revenues since 2002. LICs and emerging market countries saw their current accounts deteriorate, on average, partly owing to higher oil prices, with emerging markets moving into deficit for the first time since 2000. In some low-income countries, however—particularly in the CIS—the adverse impact of higher oil prices on the current account was mostly offset by increases in remittances and prices of non-oil commodity exports.

Largely reflecting terms of trade movements, the value of oil exports rose rapidly, while imports increased strongly in emerging markets. Exports jumped by more than 25 percent in all oil-exporting countries except Syria, mainly due to the increase in the price of oil, but also increases in oil production in many countries. Export performance in LICs was mixed, with strong growth in Sudan and Yemen because of oil receipts, and in Armenia and Mauritania because of robust growth in base metals receipts. While export growth in emerging markets remained strong at an average of 16 percent, all emerging countries except Pakistan registered a slowdown, owing to lower agricultural exports caused by adverse weather conditions in some countries and increased competition in textiles in others. Import growth moderated in oil exporters and the share of imports in GDP declined, reflecting the oil exporters' propensity to save higher oil revenues. By comparison, the import to GDP ratio continued to rise in low-income and emerging market countries.

Foreign investment and other capital inflows, particularly to emerging markets, continued to grow (Figure 5). Jordan and Morocco accounted for the bulk of the increase, with the capital inflows to Morocco linked to the financing of large privatizations and those to Jordan related to privatization, investments in real estate, and portfolio flows. Except for Mauritania, which received significant capital inflows (from Australia) to start oil production, and Djibouti (from Dubai) to construct a new container terminal and a deep water port, most LICs experienced a slight decline in foreign direct

Figure 5. Foreign Direct Investment
(In billions of U.S. dollars)



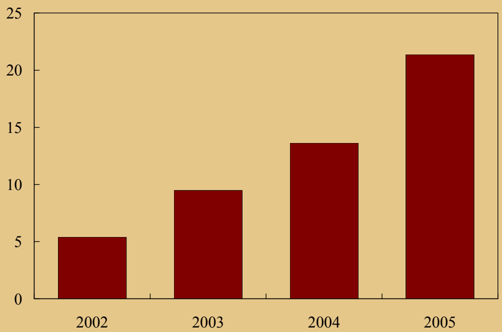
Sources: Data provided by authorities; and IMF staff estimates and projections.

Box 1. What Happened to Higher Oil Revenues in Oil-Exporting Countries?

Largely as a result of higher prices, oil export receipts have risen from $185 billion in 2002 to $460 billion in 2005, an increase equivalent to about one-quarter of oil exporters' GDP. So far, oil-exporting countries have saved a substantial proportion of the higher revenues.

Between 2002 and 2005, the current account surplus of oil exporting countries—a broad measure of their saving—increased from $32 billion (5 percent of GDP) to $220 billion (21 percent of GDP). The cumulative surplus during 2003–05 was nearly $400 billion. Of this, about $210 billion was saved through the accumulation of official reserves, which reached $360 billion at end-2005.[1]

Figure 1. Current Account Balance
(In percent of GDP)



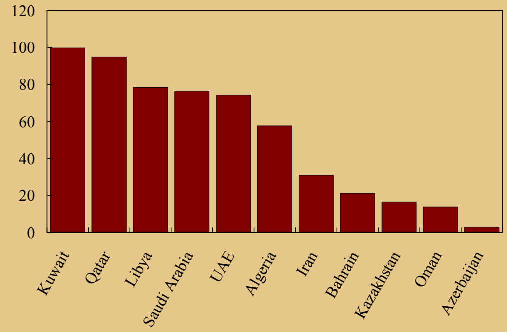
Sources: Data provided by authorities; and IMF staff estimates.

Oil exporters saved about two-thirds of the increase in oil export revenues received since 2002 (measured as the ratio of the increase in the current account surplus to the increase in oil export receipts). Kuwait, Libya, and Qatar saved the highest proportion of their increased revenue; and Azerbaijan, Kazakhstan, and Oman saved the least.

With about three-quarters of oil export receipts accruing to governments, these developments largely reflect the governments' very cautious approach to spending. The overall fiscal position of these countries improved from broad balance in 2002 to a surplus of 12 percent of GDP in 2005.

[1]Gross official reserves reflect the foreign asset position of central banks and do not include foreign assets of governments held in special funds.

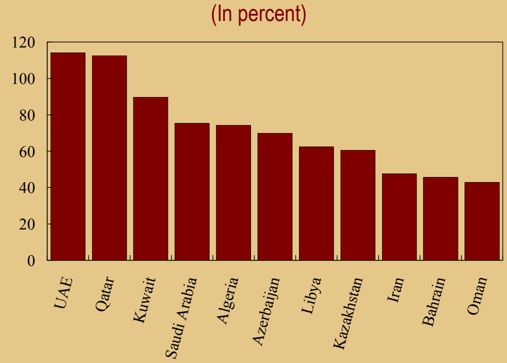
Figure 2. The Ratio of the Increase in Current Account Balance to the Increase in Oil Export Receipts
(In percent)



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

On average, governments saved three-quarters of the increase in oil revenue accruing to the budget since 2002 (measured as the ratio of the increase in the fiscal balance to the increase in government oil revenues). Kuwait, Qatar, and the UAE had especially high rates of government saving, partly reflecting strong increases in non-oil revenues in these countries.

Figure 3. The Ratio of the Increase in Fiscal Balance to the Increase in Oil Revenue
(In percent)



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

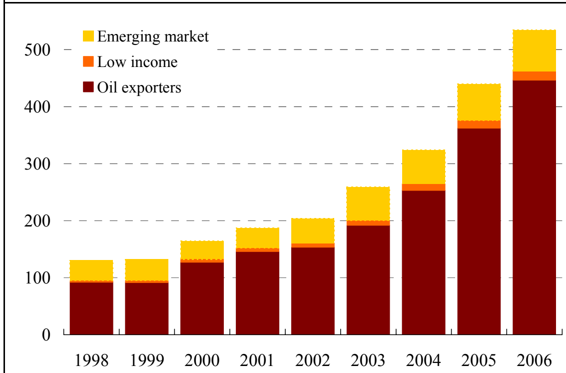
Oil revenues that were saved went into building assets and repaying public debt. In Iran, Kazakhstan, Kuwait, and Saudi Arabia, the governments used a significant part of the revenue to reduce debt.

investment (FDI). Among oil exporters, the GCC countries[3] accounted for most of the large foreign investment inflows over the last two years. These inflows were related to privatizations in transportation and telecommunications sectors, massive investments in petrochemicals, gas and LNG, and infrastructure projects.

MCD countries' gross official reserves amounted to nearly $440 billion at end–2005, more than double the level at end–2002 (Figure 6).[4] Reserves of oil-exporting countries increased by roughly $210 billion over the past three years. LICs doubled their reserves over the same period, mainly because of sharp increases in Sudan, Uzbekistan, and Yemen, which benefited from high prices for their main export commodities. Emerging market countries also continued to accumulate reserves, albeit more gradually, mostly because of increases in FDI inflows and, in Egypt, official borrowing. In terms of months of import cover, oil exporters had over 15 months, LICs 5 months, and emerging markets 6 months at end-2005.

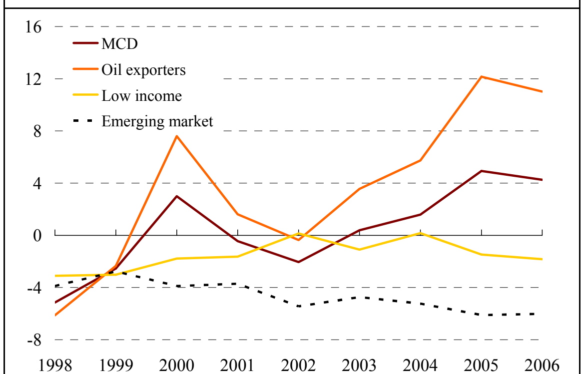
The overall fiscal balance for the MCD region continued to improve, turning from a deficit of 1½ percent of GDP during 1998–2002 to a surplus of 5 percent of GDP in 2005 (Figure 7). Not surprisingly, oil exporters benefited from the sharp increases in oil prices,

Figure 6. Gross Official Reserves
(In billions of U.S. dollars)



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

Figure 7. Central Government Fiscal Balance
(In percent of GDP)



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

[3]GCC (Gulf Cooperation Council) countries comprise Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

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

moving from broad balance in 2002 to a surplus of 12 percent of GDP in 2005.[5] Elsewhere, deficits generally increased in 2005, in some cases reflecting higher subsidies for oil products.

MCD countries' government spending fell in 2005 to about 28 percent of GDP, with spending increases in LICs more than offset by cuts in oil-exporting countries. Expenditure to GDP ratios for the LICs have been rising for several years, particularly in Afghanistan, Sudan, Tajikistan, and Yemen owing to large investment projects, while in Georgia a strengthened revenue performance enabled increased expenditures in priority areas. Expenditures as a percent of GDP in emerging market countries remained stable in 2005 and close to the average for 1998–2002, with a notable increase in Morocco, and declines in Egypt and Lebanon. In both groups of countries, expenditures on wages and salaries as a percent of GDP increased on average compared with 1998–2002, albeit only slightly in emerging markets. In contrast, government spending as a percent of GDP decreased in oil exporters, as spending on wages and salaries was restrained. In percent of GDP, there were especially large reductions in the wage bill over the past three years in Kuwait, Libya, and Qatar. The declining share of wages was accompanied by a targeted shift in oil-exporting countries' allocation of resources to social sectors and infrastructure investments.

These fiscal trends reflect oil exporters' continued cautious approach to spending higher oil revenues. Measured by the increase in the fiscal surplus, oil-exporting countries saved three-quarters of the increase in government oil revenue received since 2002 (Box 1), despite the launch in several countries of large public sector projects in infrastructure and the oil and gas sectors. The highest government saving out of additional oil revenues was in Qatar and the UAE. On the other hand, Bahrain and Oman recorded the lowest rates of saving, as spending rose significantly with investment growth in the non-hydrocarbon sectors.

Governments throughout the region limited the pass-through of oil price increases, helping to contain inflationary pressure (Box 2). On average, the pass-through for regular gasoline was about 50 percent since 2002, but there were significant variations among countries, with the highest pass-through in LICs (80 percent) and the lowest in oil-exporting countries (18 percent). After picking up in 2004, the adjustment rate slowed in all country groupings in 2005. To limit the impact on the poor, price pass-through for diesel and kerosene was the lowest among commodities. Conversely, all of the market price increases for high octane gasoline have been passed through into domestic prices in LICs and emerging markets.

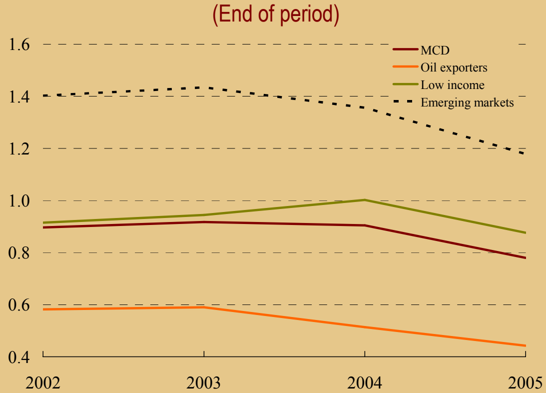
[5]After declining from 32 percent in 2002 to 31 percent in 2003, the ratio of the non-oil fiscal deficit to non-oil GDP increased gradually thereafter to 34 percent in 2005.

Box 2. Pass-Through of Higher Oil Prices to Domestic Product Prices

The pass-through of higher oil prices in most MCD countries has been substantially less than in the United States.[1] *Pass-through has been especially low in oil-exporting countries and relatively high in low-income countries. Among the main oil products, pass-through has been highest for high octane gasoline and lowest for diesel and kerosene.*

Retail prices of regular gasoline vary substantially across countries, with the lowest average prices in oil-exporting countries and highest in emerging market countries. The price of regular gasoline doubled in the United States between 2002 and 2005. Over this period the ratio of prices in MCD countries to those in the United States declined for all country groups.

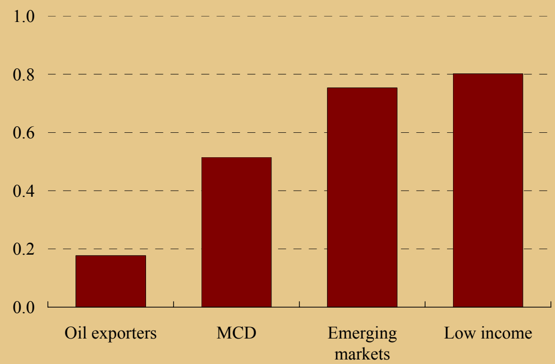
Figure 1. Ratio of Domestic Regular Gasoline Prices to U.S. Prices
(End of period)



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

The pace of price adjustment accelerated in all countries in 2004; in LICs, the price increase exceeded that in the United States. However, price adjustment slowed significantly in all country groups in 2005, and was lower than in the United States. For all MCD countries, the average pass-through between 2002 and 2005 was about 50 percent, and ranged from 18 percent in oil-exporting countries—where the authorities were less pressured to increase domestic prices at a time of strong oil revenue growth and large budget surpluses—to 80 percent in LICs.[2]

Figure 2. Ratio of Cumulative Changes in Domestic Regular Gasoline Prices to Changes in U.S. Prices, 2002–05



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

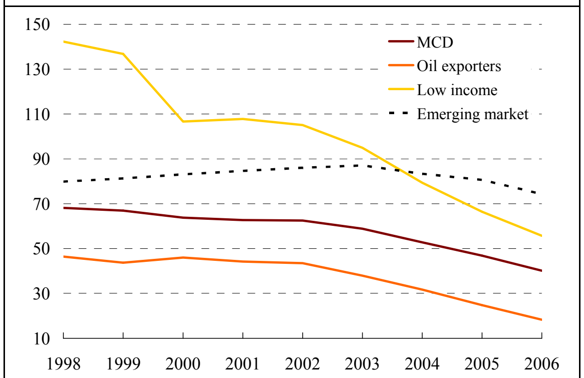
In individual countries, retail prices of regular gasoline were relatively constant in Egypt and Syria between 2002 and 2005, but in Djibouti, Mauritania, Pakistan, and the UAE, price increases for regular gasoline were at par with or greater than those in the United States.

On average in MCD countries, pass-through was highest for high octane gasoline, used predominantly by the rich, and lowest for diesel and kerosene, which are relatively more important for the poor.

[1]The United States is used as a yardstick, as many studies have shown that the responsiveness of U.S. retail prices to world crude oil prices changes is the highest or one of the highest in the world.

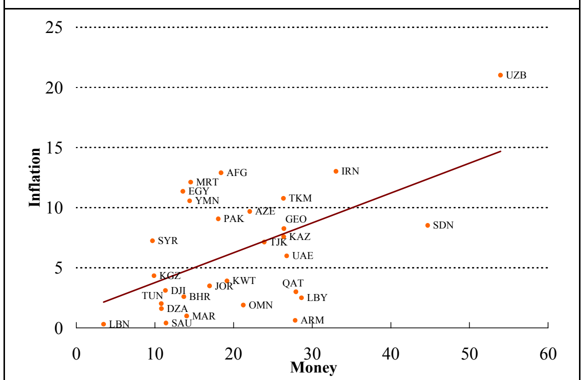
[2]These estimates need to be interpreted with caution as retail price changes can reflect not only movements in crude oil prices but also changes in other costs, including taxes.

Figure 8. Total Government Debt
(In percent of GDP)



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

Figure 9. Money Growth and Inflation, 2005
(In percent)



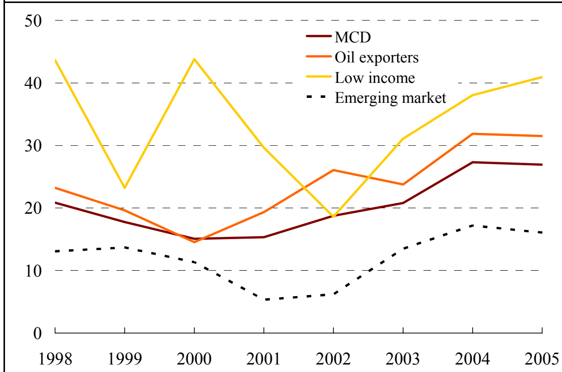
Sources: Data provided by authorities; and IMF staff estimates.

All country groups made progress in reducing government debt, either through fiscal consolidation or with funding from privatization receipts and earmarked oil revenues (Figure 8). Government debt-to-GDP ratios for oil exporters (25 percent) and LICs (66 percent) at end-2005 were just over half of their levels during 1998–2002. Nevertheless, debt levels remain relatively high in some LICs, such as Djibouti, Kyrgyz Republic, Mauritania, and Sudan. Some progress was made in reducing the emerging market countries' debt-to-GDP ratio, but gross debt increased further in Lebanon in 2005, reflecting the country's high fiscal deficit.

Monetary policy remained largely accommodative throughout the region. Money, broadly defined to include foreign currency deposits, grew by 21 percent in 2005, about the same as in 2004. With consumer price inflation at 7 percent, real money grew by about 13 percent, more than double the growth rate of real GDP. In general, countries with higher money growth rates experienced higher inflation (Figure 9). However, rapid monetary growth in many LICs, notably in CIS countries, largely reflected a positive trend toward remonetization and financial deepening, as was also the case in Libya.

Rapid money growth was matched by a marked rise in net foreign assets and strong credit growth in many countries. Oil exporters' net foreign assets grew strongly, reflecting pegged or heavily managed exchange rates, and they were largely unable to sterilize the inflows.[6] Credit to governments generally declined, reflecting the higher fiscal surpluses of oil exporters, although several emerging market governments needed large credit increases to finance higher deficits. Credit to the private sector continued to increase rapidly in all country groupings, especially in LICs and oil-exporting countries, reflecting abundant liquidity and generally accommodative monetary policies (Figure 10). The increase was particularly strong in Azerbaijan, Kazakhstan, Qatar, and the UAE (among oil exporters); in Armenia, Georgia, and Sudan (among LICs); and Jordan and Pakistan (among emerging market countries).

Figure 10. Credit to the Private Sector
(Percent change from previous period)



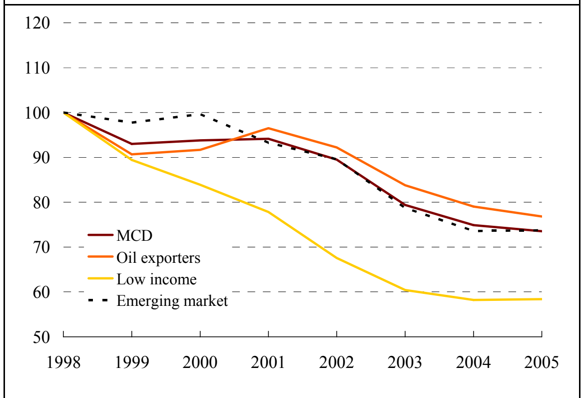
Sources: Data provided by authorities; and IMF staff estimates.

Despite strong credit growth across the region, credit conditions vary significantly among country groupings. In LICs, with their relatively underdeveloped financial systems, the level of credit, while rising, remains extremely low at only 15 percent of GDP at end-2005; in Armenia, Kyrgyz Republic, and Yemen, it remains below 10 percent. By contrast, credit to GDP in emerging market countries averages nearly 50 percent of GDP, broadly in line with the global average for emerging markets. Helped by the higher oil receipts, oil-exporting countries are catching up fast, with credit to GDP up from 36 percent during 1998–2002 to 46 percent at end-2005.

Real exchange rate appreciation has so far been limited in oil-exporting countries, despite their large export receipts. This reflects both widespread pegging of nominal exchange rates by oil exporters (or resistance to nominal appreciation under heavily managed floats), their high rates of saving, and their very limited pass-through of higher fuel costs to domestic prices

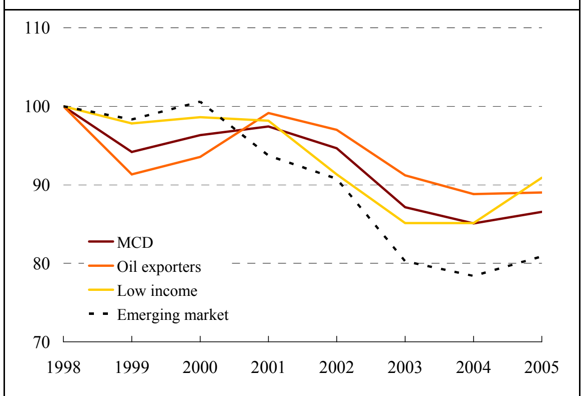
[6]In some countries where most oil export receipts are invested overseas by special funds (e.g., Abu Dhabi Investment Authority), these funds act as a sterilization channel and, consequently, the oil export receipts have a limited impact on monetary developments.

Figure 11. Nominal Effective Exchange Rate
(Index 1998 = 100; increase indicates appreciation)



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

Figure 12. Real Effective Exchange Rate
(Index 1998 = 100; increase indicates appreciation)



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

(Figures 11-12).[7] Also, these countries' relative openness to trade and flexible labor markets have limited consumer price increases, causing inflationary pressures to appear so far mainly in the form of higher asset price inflation. In the other country groups, real appreciation has been larger on average, despite the fact they are oil importers. This is because many of these countries have seen their higher import bills offset by strong remittances or capital inflows, and have more flexible exchange rate regimes. They have also passed through a substantially higher proportion of fuel cost increases.

Equity markets skyrocketed in 2005 especially in GCC countries, but there have been partial reversals in most markets in recent months (Box 3). Several factors, including developments in economic fundamentals and global oil markets, repatriation of funds invested overseas, ample liquidity, and a wave of attractively priced initial public offerings (including privatization operations), have boosted demand for regional equities in recent years.[8]

[7]Following the exchange rate regime classification in the IMF's *Annual Report on Exchange Arrangements and Exchange Restrictions (2005),* we classify countries into fixed regimes (Bahrain, Djibouti, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Turkmenistan, and the UAE) and flexible regimes (Afghanistan, Algeria, Armenia, Azerbaijan, Egypt, Georgia, Iran, Kazakhstan, Kyrgyz Republic, Mauritania, Pakistan, Sudan, Tajikistan, Tunisia, Uzbekistan, and Yemen).

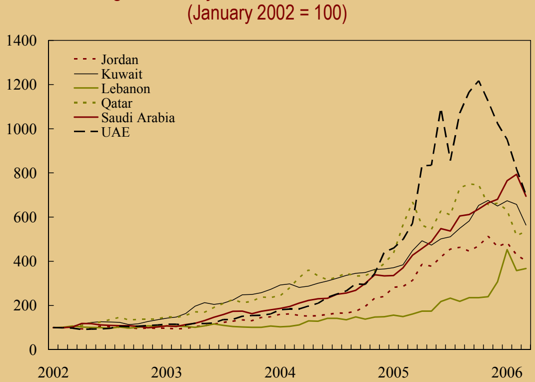
[8]Initial Public Offerings (IPOs) in the GCC region are being used increasingly to finance corporations and as the preferred privatization channel. Despite the current equity boom in the GCC region, IPOs are generating significant demand and most recent ones have been substantially oversubscribed. In privatization operations, the oversubscriptions are partly due to the public policy to underprice shares as a means to distribute wealth among the population. In 2004–05, IPOs, half of which were in Saudi Arabia, raised over $10 billion.

Box 3: Developments in Equity Markets—Fundamentals or Bubbles?

Equity markets across the Middle East region boomed in 2003–05, with high oil prices and ample liquidity fueling demand. Although prices are still relatively high, the recent corrections highlight the need for policies to limit the impact of boom-bust cycles.

Equity markets were particularly strong in 2005—the region was home to 8 of the top 10 performing bourses in the world, and indices in Dubai, Egypt, Lebanon, and Saudi Arabia all more than doubled. The Shua'a composite index, covering 14 Middle East markets, jumped by over 90 percent, in stark contrast to the generally modest gains in industrial countries. The Shua'a index's growth also substantially exceeded emerging markets' average growth as measured by the Morgan Stanley MSCI index, which grew by 30 percent in 2005.

Figure 1. Major Middle East Markets Boom
(January 2002 = 100)



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

Several factors account for this strong performance. High oil prices boosted consumer and investor confidence, with ample liquidity and strong credit growth sustaining a surge in demand and private sector activity. In the context of low returns on global financial markets, the dramatic improvement in corporate profitability made equity very attractive to regional investors, with hydrocarbon-related companies playing a leading role. Large capital gains in the equity and real estate markets boosted the profits of major investment holdings. There was also a wave of initial public offerings (IPOs), partly connected with privatization. Aiming to garner support for privatization, governments set very favorable prices for the companies to be sold, contributing to the vast oversubscription of most IPOs and the subsequent rapid price adjustment. Encouraged by market conditions and changes in listing regulations, many private companies also launched successful IPOs. Finally, the broad range of legal, regulatory and supervisory changes in the region has improved the markets' transparency, increasing foreign and domestic investors' confidence alike.

Figure 2. Key Stock Market Indicators[1]

	Price/ Earnings Ratio	Price/ Book Value Ratio	Dividend Yield (Percent)
Bahrain Stock Exchange	11.83	2.15	3.06
Kuwait Stock Exchange	12.92	3.05	1.90
Muscat Stock Market	14.06	2.88	1.84
Doha Stock Market	24.30	5.59	0.92
Tadawul All Shares Index (Saudi Arabia)	46.00	10.20	1.20
Dubai Financial Market	15.91	3.70	0.47
Abu Dhabi Stock Market	32.54	5.56	2.58
Hermes Stock Market (Egypt)	21.69	7.10	3.10
Amman Stock Market	36.62	4.37	1.16

Sources: Bloomberg, Bakheet Financial Advisor, Global Investment House, World Bank Emerging Markets Database.

[1]Data as of end-February 2006.

Box 3: Developments in Equity Markets—Fundamentals or Bubbles? *(concluded)*

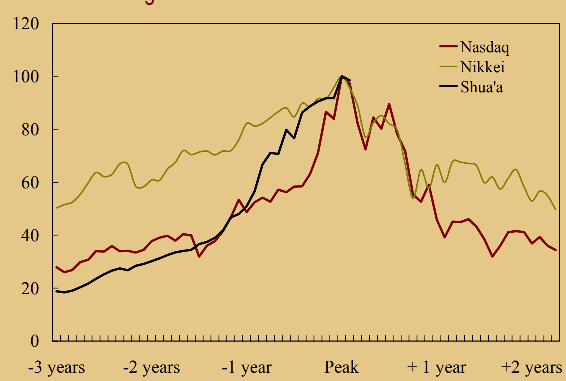
Market sentiment began to change in late 2005, and there have been sharp corrections in many markets in early 2006. Increasing concern about the sustainability of current valuations began in the UAE and Qatar markets, where stock price increases had been especially large. Selling pressures became more apparent in November, extending to Egypt and Jordan. After most markets rallied in January, pessimism became generalized. As margin calls increased rapidly, investors withdrew from other regional markets to cover losses at home, leading to panic selling on "Black Tuesday," March 14. A number of policy measures helped to calm investors, but markets remain fragile, as demonstrated by the further sharp fall in the Saudi market in mid-April.

There is evidence of overvaluation, although this is difficult to quantify. The sheer size of the increase in stock prices is daunting when compared with the gains recorded in previous major stock market bubbles, such as the "dot com" bubble in 2000 or the Nikkei episode in 1989. Since the beginning of their acceleration in the first quarter of 2003, the best performing markets in the region have risen by up to 800 percent, and stock prices have grown well in excess of listed companies' profit growth. It is possible that rapid money and credit expansion (particularly in margin lending) fueled excessive speculation. Increased price volatility—which is often associated with the bursting of speculative bubbles—occurred just prior to the start of the corrections in the last quarter of 2005. Available evidence suggests that strong increases in property prices accompanied the surge in equity prices in several countries.

Despite the recent corrections, equity prices remain significantly higher than two years ago. Although downside risks still dominate the outlook, the bulk of the correction may have already occurred, and a portion of past valuation gains is likely to be retained as long as fundamentals remain strong and high oil prices and hydrocarbon output continue.

Policy responses to the recent market correction have focused on supporting liquidity and opening the markets to new investors. Most authorities refrained from providing direct market support. The Saudi authorities lifted the exclusion on foreign residents in Saudi Arabia—previously restricted to dealing only in mutual funds—and lowered the minimum face value of traded stocks in an effort to make smaller shares attractive. Under pressure to reduce extreme volatility, they also temporarily narrowed the intraday trading band. The UAE authorities raised the ceiling on bank lending against equity holdings and reduced the time limit for companies to refund IPO subscriptions. In Jordan, the authorities revoked the prohibition for listed companies to buy back their shares

Figure 3. Fundamentals or Bubble?



Source: Bloomberg.
Market peaks: Nasdaq (Mar. 2000), Nikkei (Dec. 1989), Shua'a (Feb. 2006).

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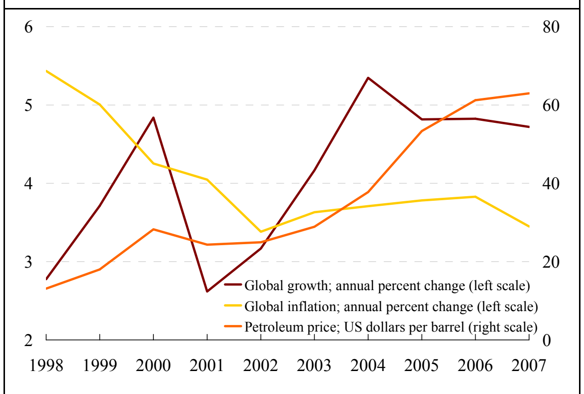
Share prices quoted on GCC stock markets quadrupled during 2003–05, making these the markets with the highest returns in the world. Other Middle East equity markets also benefited from stronger economic fundamentals and intraregional capital flows, registering record growth rates (Egypt and Jordan, among others). In some countries, increased credit fueled rising real estate prices (e.g., Kazakhstan and the UAE), with commercial banks highly exposed to the property sector. Despite the improved fundamentals, the sheer scale of the run-up in asset prices in recent years—which is at par with the rise of the NASDAQ during the "dot com" bubble—heightens the risk of sharp reversals. Indeed, concerns about possible overvaluation have resulted in corrections in most regional markets since late 2005.

Economic Outlook and Risks

World economic outlook

The strong performance of the world economy is likely to continue.[9] Inflation and long-term interest rates are near historically low levels. Global industrial production has picked up markedly from mid-2005, the services sector remains resilient, and global trade growth is close to double digit levels. From a regional perspective, global economic expansion is becoming more broadly based. Against this background, global GDP growth is projected to average nearly 5 percent in 2006—the same as in 2005—underpinned by a pickup in investment, very favorable financial market conditions, and continued accommodative macroeconomic policies that are expected to offset the impact of high oil prices (Figure 13). Inflation is projected to remain subdued at about last year's level of 3¾ percent.

Figure 13. WEO Global Assumptions



Source: IMF, *World Economic Outlook*.

[9]This section is based on the April 2006 issue of the IMF's *World Economic Outlook*.

Oil prices remain high and volatile. The oil price fluctuated between $55 and $65 per barrel during the first quarter of 2006, but rose to above $70 in April. Prices have remained high mainly because of concerns about the risk of a future supply disruption; futures markets do not signal any easing of oil prices in the foreseeable future. For 2006, the oil price is projected to average $61 per barrel, compared with $53 in 2005. After a strong rise in 2004–05, non-oil commodity prices are expected to moderate as supply responds to higher prices.

Financial conditions continue to be very favorable, with long-term interest rate spreads and volatility still very low. These exceptional conditions reflect improved fundamentals, ample global liquidity, and a level of global investment that is low for this stage of the cycle. The resulting search for yield has reduced risk premia, with emerging market asset prices rising strongly in response to improvements in fundamentals and continued inflows from long-term institutional investors.

Global current account imbalances continue to widen, despite the regional broadening of recovery. Global imbalances have been aggravated by higher oil prices, which account for some of the recent widening of the U.S. current account deficit and the redistribution of surpluses toward fuel exporters. Thus, the manner in which oil exporters adjust will have important implications for the evolution of global imbalances.

Despite the strong growth momentum in the world economy, the balance of risks remains tilted to the downside. These risks include sustained high and/or volatile oil prices, with the risk of a spike linked to potential supply disruptions and possibly increased pass-through to core inflation, an abrupt increase in long-term interest rates, a disorderly unwinding of global current account imbalances, and an Avian flu epidemic or a major geopolitical event.

Outlook for the MCD region

Growth in the MCD region in 2006 is expected to continue at about the same pace as in 2005. The LICs are expected to do better, buoyed by the start of oil production in Mauritania, a sharp increase in oil output in Sudan, and a rebound in the Kyrgyz Republic following a weak patch in the wake of the March 2005 Tulip revolution. In the emerging markets, an improved political climate in Lebanon and a bumper crop in Morocco are expected to usher in a recovery in these countries, but policy tightening in Jordan is likely to result in somewhat slower growth. In the absence of any marked increase in government spending of oil revenues, growth in oil-exporting countries is expected to ease.

Inflationary pressure may intensify in oil-exporting countries and some emerging market economies. Pressure is likely to come from further adjustments in domestic prices for petroleum products, and wage increases to address social and political concerns. Calls for wage increases will be particularly intense in oil-exporting countries if budget surpluses continue to grow. In oil-exporting countries that maintain fixed exchange rates, some pickup in inflation of goods and/or asset prices may be observed as real exchange rates adjust to higher oil prices. Elsewhere, the inflation outcome will depend on the authorities' ability to implement sufficiently tight macroeconomic policies in response to rising fuel prices and strong inflows. Among emerging market economies and LICs, tighter monetary policies are expected to lead to marked reductions in inflation in Afghanistan, Egypt, Georgia, and Mauritania.

The external current account surplus of the region will likely remain strong, at close to 16 percent of GDP. With current oil price projections and continued cautious spending policies, oil exporters should register a modest further increase in their current account surplus to near 23 percent of GDP. For 2003–06, their cumulative surplus is projected to reach $670 billion, implying continued savings of about two-thirds of the increase in oil export receipts. For the LICs, lower deficits are likely because of increased remittances. For the emerging market countries, current account deficits are likely to widen on average, mainly reflecting higher oil imports; particularly large, though broadly unchanged, deficits are projected for Jordan and Lebanon. With growing foreign direct investment, however, official reserves are expected to continue to increase in all country groups.

The MCD region's fiscal surplus is likely to remain large. For oil exporters, 2006 budgets are generally very conservative, based on implied oil price projections of $35 a barrel on average. Government revenues are therefore budgeted to decline as a percentage of GDP, while expenditures are expected to increase modestly. However, since actual oil prices will likely be much higher than budgeted, fiscal overperformance will continue, with the degree depending on the extent and timing of supplementary budgets. In LICs and emerging market countries, little change in fiscal deficits is expected on average, with both revenues and expenditures projected to increase moderately.

Although the outlook for the region is good, countries should be prepared for potential risks. Oil prices are expected to remain high but continued volatility is possible, with the market being vulnerable to geopolitical uncertainties. Other things being equal, higher oil prices would be positive for oil exporters, but they could lower the growth prospect and worsen the inflation performance of low-income and emerging market countries. Of course, the entire region would likely suffer if global growth were to falter because of higher oil prices. Weakening international market conditions accompanied by rising global interest rates could significantly reduce capital flows to emerging market countries. In addition, sharp corrections in local equity and property markets, and continued rapid credit growth, could each pose a threat to financial stability in countries with weak regulatory and supervisory systems. Finally, a worsening of geopolitical uncertainties and a deteriorating security situation in some MCD countries would affect the region's economic performance substantially.

Policy Issues

MCD countries must build on the foundations for higher sustained growth, so as to reduce poverty and create jobs for their rapidly growing labor force. Strong commodity prices and global growth have underpinned the recent favorable performance. Nonetheless, growth in the MCD region remains a little below the average for all developing countries, and continues to lag well behind that of dynamic emerging market countries. While continued progress on structural reforms will be the key to achieving the goal of sustained high growth, macroeconomic policies will also have a vital part to play by addressing the challenges and risks associated with persistent high oil prices, emerging inflationary pressures, and surging asset markets.

For oil-exporting countries, managing oil revenues remains the central challenge. So far, oil exporters have treated oil price increases as a temporary phenomenon and have saved a large portion of the increased revenue. They should take the opportunity provided by high oil prices, which are likely here to stay, to put the region on a higher growth path. While for some, paying down debt may be the right strategy, most should use their oil revenue to increase spending on projects with high returns. Depending on each country's particular circumstances, spending on infrastructure or investing in social reform and education would boost the economies' growth potential and flexibility in the future. To the extent that higher domestic spending results in increased imports, this will also help to reduce global imbalances. Oil price subsidies, however, need to be scaled back to limit excessive energy consumption and reduce large transfers, which mainly benefit the middle class. Instead, they should be replaced by targeted compensation mechanisms to protect the poor.

Oil-importing countries will also need to adjust to permanently high oil prices. Government policies have so far limited the adverse impact of oil price increases on oil-importing countries' growth and inflation performance. However, controlling the pass-through of rising oil prices has come at a substantial fiscal cost in some countries. With continued high oil prices, subsidies must be scaled back to curb rising costs and encourage energy efficiency. Again, adequate compensation mechanisms for the poor must also be implemented. Fiscal deficits and government debt remain high in most of the emerging market countries, and fiscal tightening will be needed to ensure debt sustainability, free up resources for private investment, and contain pressures on the balance of payments.

Monetary policies should facilitate real exchange rate adjustments in response to higher oil prices, while seeking to prevent higher inflation from becoming entrenched. Large foreign exchange inflows in many countries are complicating the conduct of monetary policy and fueling rapid credit and money growth. At the same time, exchange rate and fuel pricing policies are often delaying the necessary adjustments in real exchange rates—appreciation in the case of oil exporters and depreciation for some oil importers.

- In oil-exporting countries, it is preferable for any real appreciation to come about through a nominal appreciation of the currency. In countries that are institutionally committed to a pegged rate, such as the GCC members in the move to a monetary union, but are very open and have flexible labor markets, there will be more of an increase in asset prices and less of an effect on prices of goods and services. Those with flexible exchange rates, such as Algeria, Iran, and Kazakhstan, could limit inflationary pressures by tightening monetary policies and allowing more nominal appreciation.
- Countries that are experiencing strong inflows from other sources, such as remittances or capital inflows, may also need to allow their real exchange rates to appreciate—except in cases where the inflows are thought to be temporary.
- In oil-importing countries, adjustments to permanently higher oil prices could increase inflation. In countries with flexible exchange rates, the impact on inflation may be magnified by nominal exchange rate depreciation in response to widening external imbalances. In such cases, monetary and fiscal policies will need to be tightened to prevent higher inflation from becoming entrenched.
- In all countries experiencing upward pressure on exchange rates as a result of strong inflows, structural reforms to boost productivity are the best way to strengthen the competitiveness of the noncommodity sectors.

Stronger prudential measures and improved risk management practices would improve the resilience of financial systems to boom-bust cycles. Even after the recent reversals in local stock markets, the risk of further corrections remains. The authorities should carefully monitor these risks and continue their efforts to bring the regulatory and supervisory frameworks in equity and other financial markets up to international standards. Strictly enforcing regulations and disclosure requirements, and taking prompt corrective actions against violators would enhance transparency, reduce insider trading, and strengthen markets' resilience. Improved risk management practices could include restrictions on margin lending and higher risk-based capital. There may also be a need to limit banks' exposure to asset markets in some countries. Direct intervention in the stock markets should be avoided.

Over the longer term, the region's financial systems need to be transformed so that oil exporters' wealth can be efficiently converted into productive investment. This will require reducing public ownership and control of financial institutions; strengthening institutional and regulatory frameworks; further facilitating access to foreign financial institutions and customers; and integrating local markets into the global financial system. The use of IPOs as a vehicle for privatization has already positively affected some MCD capital markets, although the policy of deliberately underpricing them should be reconsidered in light of its impact on market stability. Issuing domestic debt for sterilization purposes could also enhance monetary policy efficiency and capital market development.

In the future, domestic policies should be designed to consolidate the gains in growth and financial balances in recent years, to ensure they can be sustained in a less favorable global environment. The strong macroeconomic performance of the past few years and the supportive global environment provide an opportunity to address the long-standing problems of unemployment and poverty in the region. To achieve these goals, governments will need to implement structural and institutional reforms to enhance productivity, improve the business environment, and—especially in oil exporting countries—substantially raise investment spending. Higher spending by oil exporters would also help to reduce the risks of disruptive adjustments in global imbalances and a sharp slowdown in the global economy.

Photo on next page by Stephanie McGehee/REUTERS

Statistical Appendix

Data and Conventions

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

The following statistical appendix presents data for 28 of the MCD countries. Iraq, Somalia, Turkmenistan, and West Bank and Gaza are not included because of limited data availability.

Tables and charts reflect data available as of end-March 2006.

Country weights used for aggregation are based on 2003 GDP in purchasing power parity terms. In Table 18, the current account to GDP ratios for groups of countries are calculated by dividing the sum of external current account balances by the sum of the GDP of individual countries, all converted to U.S. dollars at market exchange rates.

Afghanistan is included in the tables but excluded from the country group averages, except in Tables 3, 18, and 19, owing to incomplete data on GDP in purchasing power parity terms.

In Tables 2, 8, and 9, "oil" includes gas, which is also an important resource in several countries.

CIS (Commonwealth of Independent States) refers to the CIS countries covered by the MCD department. These countries are Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan.

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

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

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

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Table 1. Real GDP Growth

(Annual change; in percent)

	1998–2002 Average	2003	2004	2005	2006
Middle East and Central Asia	**3.8**	**6.4**	**5.8**	**6.1**	**6.2**
Oil exporters	**3.6**	**7.5**	**5.8**	**6.5**	**6.1**
Algeria	3.6	6.9	5.2	5.3	4.9
Azerbaijan	7.7	10.4	10.2	24.3	26.2
Bahrain	4.8	7.2	5.4	6.9	7.1
Iran	4.2	6.7	5.6	5.9	5.3
Kazakhstan	6.8	9.3	9.6	9.4	8.0
Kuwait	2.5	13.4	6.2	8.5	6.2
Libya 1/	1.7	9.1	4.6	3.5	5.0
Oman	3.6	1.9	4.5	3.8	6.2
Qatar	7.4	8.6	9.3	5.5	7.1
Saudi Arabia	1.5	7.7	5.2	6.5	6.3
Syria	2.0	1.3	2.5	3.5	3.6
United Arab Emirates 1/	4.0	11.6	7.8	8.0	6.5
Low-income countries	**4.8**	**5.5**	**6.2**	**7.1**	**9.4**
Afghanistan	...	15.7	8.0	13.8	11.7
Armenia	7.9	13.9	10.1	13.9	7.5
Djibouti	1.9	3.2	3.0	3.2	4.2
Georgia	3.6	11.1	6.2	7.7	6.4
Kyrgyz Republic	3.3	7.0	7.0	-0.6	5.0
Mauritania	4.9	6.4	6.2	5.5	18.4
Sudan	5.7	5.6	5.2	8.0	13.0
Tajikistan	7.3	10.2	10.6	6.7	8.0
Uzbekistan	3.2	1.6	7.4	7.0	7.2
Yemen	4.3	3.1	2.6	3.8	3.9
Emerging markets	**4.0**	**4.8**	**5.6**	**5.2**	**5.7**
Egypt	5.1	3.1	4.1	5.0	5.2
Jordan	4.3	4.1	7.7	7.2	5.0
Lebanon	1.9	5.0	6.0	1.0	3.0
Morocco	3.6	5.5	4.2	1.8	5.4
Pakistan	3.4	5.7	7.1	7.0	6.4
Tunisia	4.4	5.6	6.0	4.2	5.8
Memorandum items:					
CIS	**5.9**	**8.2**	**9.0**	**10.6**	**10.1**
MENA	**3.6**	**6.2**	**5.5**	**5.7**	**5.9**
Of which					
GCC	**2.5**	**8.5**	**5.9**	**6.8**	**6.4**
Maghreb	**3.5**	**6.6**	**5.0**	**4.0**	**5.4**

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

1/ Data are at factor cost.

Table 2. Real Oil and Non-Oil GDP Growth for Oil Exporters

(Annual change; in percent)

	1998–2002 Average	2003	2004	2005	2006
			Non-Oil		
Oil exporters	4.5	6.4	6.3	7.0	6.5
Algeria 1/	3.6	5.9	6.2	5.1	5.7
Azerbaijan	4.2	15.2	13.5	8.4	9.6
Bahrain	4.4	8.3	8.6	9.0	8.0
Iran	4.7	6.6	5.9	6.3	5.3
Kazakhstan	7.7	8.9	8.4	11.0	8.9
Kuwait	6.1	10.0	5.3	6.8	6.9
Libya 2/	3.4	2.2	4.1	4.6	4.0
Oman	4.4	5.8	8.0	6.0	6.3
Qatar	4.9	11.8	4.0	8.3	8.0
Saudi Arabia	3.2	3.7	5.0	8.6	8.0
Syria	4.1	3.6	6.0	5.1	5.5
United Arab Emirates 2/	7.0	10.8	9.9	7.8	8.1
			Oil		
Oil exporters	1.6	10.3	4.0	4.3	4.6
Algeria	3.4	8.8	3.3	5.6	3.5
Azerbaijan	20.0	0.7	2.5	65.3	54.2
Bahrain	7.3	1.1	-11.5	-7.5	0.3
Iran	0.6	7.7	3.4	2.5	4.9
Kazakhstan	16.8	11.4	15.3	2.2	3.4
Kuwait	-2.7	19.8	7.7	11.3	5.2
Libya 2/	-1.5	25.4	5.5	1.6	6.9
Oman	2.1	-5.9	-3.2	-1.5	5.9
Qatar	9.8	6.3	13.5	3.4	6.5
Saudi Arabia	-1.8	17.2	5.7	2.2	2.6
Syria	-3.4	-6.6	-11.3	-4.3	-5.8
United Arab Emirates 2/	-1.3	13.6	2.9	8.4	2.5

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

1/ Real non-oil growth data are slightly different from official statistics because of different methodologies used by IMF staff and Algerian authorities.

2/ Data are at factor cost.

Table 3. Nominal Gross Domestic Product

(In billions of U.S. dollars)

	1998–2002 Average	2003	2004	2005	2006
Middle East and Central Asia	**833.1**	**1,015.8**	**1,189.5**	**1,439.0**	**1,660.8**
Oil exporters	**543.4**	**689.3**	**827.5**	**1,029.5**	**1,197.2**
Algeria	52.8	68.0	85.0	102.0	117.5
Azerbaijan	5.2	7.3	8.7	12.6	20.2
Bahrain	7.4	9.7	11.0	12.9	14.8
Iran	106.2	133.7	161.5	196.4	240.4
Kazakhstan	20.7	30.9	43.2	56.1	66.3
Kuwait	33.4	46.2	55.7	74.6	87.5
Libya	28.3	23.4	30.2	38.7	44.8
Oman	18.0	21.7	24.8	30.3	34.4
Qatar	15.6	23.6	28.5	37.9	44.9
Saudi Arabia	173.6	214.9	250.9	307.8	346.3
Syria	18.5	21.4	23.9	26.4	27.6
United Arab Emirates	63.8	88.5	104.2	133.8	152.4
Low-income countries	**44.3**	**56.5**	**68.3**	**82.4**	**98.9**
Afghanistan	4.1	4.6	6.0	7.1	8.6
Armenia	2.0	2.8	3.6	4.9	5.5
Djibouti	0.6	0.6	0.7	0.7	0.7
Georgia	3.2	4.0	5.2	6.4	7.5
Kyrgyz Republic	1.5	1.9	2.2	2.4	2.6
Mauritania	1.1	1.3	1.5	1.9	3.2
Sudan	12.6	17.7	21.6	27.7	36.0
Tajikistan	1.1	1.6	2.1	2.3	2.6
Uzbekistan	13.4	10.1	11.9	13.7	14.7
Yemen	8.6	11.9	13.6	15.2	17.4
Emerging markets	**245.4**	**270.0**	**293.7**	**327.1**	**364.7**
Egypt	91.4	81.4	78.8	93.0	109.5
Jordan	8.6	10.2	11.5	12.9	14.4
Lebanon	17.2	19.9	21.8	22.1	23.3
Morocco	34.9	43.8	50.0	52.0	54.1
Pakistan	73.1	89.8	103.5	118.5	134.0
Tunisia	20.2	25.0	28.1	28.7	29.4
Memorandum items:					
CIS	**46.6**	**58.5**	**76.8**	**98.3**	**119.5**
MENA	**785.6**	**952.7**	**1,106.7**	**1,333.5**	**1,532.7**
Of which					
GCC	**311.7**	**404.6**	**475.1**	**597.2**	**680.4**
Maghreb	**137.3**	**161.6**	**194.9**	**223.4**	**248.9**

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

Table 4. Consumer Price Index

(Annual change; year average; in percent)

	1998–2002 Average	2003	2004	2005	2006
Middle East and Central Asia	**6.0**	**5.5**	**7.0**	**7.2**	**7.4**
Oil exporters	**6.1**	**6.6**	**6.8**	**6.4**	**8.3**
Algeria	2.7	2.6	3.6	1.6	5.0
Azerbaijan	-0.6	2.2	6.7	9.7	8.6
Bahrain	-0.8	1.7	2.3	2.6	2.0
Iran	15.6	15.6	15.2	13.0	17.0
Kazakhstan	8.7	6.4	6.9	7.6	7.5
Kuwait	1.5	1.0	1.3	3.9	3.5
Libya	-3.1	-2.1	-2.2	2.5	3.0
Oman	-0.3	0.2	0.8	1.9	1.1
Qatar	1.8	2.3	6.8	3.0	2.8
Saudi Arabia	-0.5	0.6	0.3	0.4	1.0
Syria	-1.1	5.9	4.6	7.2	7.2
United Arab Emirates	2.2	3.1	4.6	6.0	5.5
Low-income countries	**18.1**	**9.3**	**8.4**	**11.0**	**8.6**
Afghanistan	...	35.8	13.1	12.9	8.9
Armenia	2.5	4.7	7.0	0.6	3.0
Djibouti	1.3	2.0	3.1	3.1	2.2
Georgia	7.4	4.8	5.7	8.3	5.3
Kyrgyz Republic	14.8	3.1	4.1	4.3	5.7
Mauritania	6.7	4.6	10.4	12.1	6.5
Sudan	10.9	7.7	8.4	8.5	7.5
Tajikistan	30.9	16.4	7.1	7.1	7.8
Uzbekistan	40.5	14.8	8.8	21.0	11.3
Yemen	11.2	10.8	12.5	10.6	15.5
Emerging markets	**3.2**	**2.7**	**6.9**	**7.6**	**5.5**
Egypt	3.2	3.2	10.3	11.4	4.4
Jordan	1.6	1.6	3.4	3.5	6.9
Lebanon	1.2	1.3	3.0	0.3	2.5
Morocco	1.8	1.2	1.5	1.0	2.0
Pakistan	4.2	2.9	7.4	9.1	8.4
Tunisia	2.7	2.8	3.6	2.0	3.0
Memorandum items:					
CIS	**14.5**	**7.6**	**7.1**	**10.1**	**8.0**
MENA	**5.2**	**5.3**	**7.0**	**6.9**	**7.3**
Of which					
GCC	**0.3**	**1.2**	**1.6**	**2.0**	**2.2**
Maghreb	**1.8**	**1.7**	**2.4**	**1.7**	**3.7**

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

Table 5. Broad Money

(Annual change; in percent)

	1998–2002 Average	2003	2004	2005	2006
Middle East and Central Asia	**16.8**	**16.7**	**22.3**	**20.9**	**20.5**
Oil exporters	**19.1**	**16.3**	**25.3**	**22.1**	**23.1**
Algeria	22.5	15.6	11.5	10.8	16.7
Azerbaijan	14.7	29.8	47.5	22.1	71.0
Bahrain	10.1	6.3	4.2	13.7	12.6
Iran	27.1	24.6	31.0	33.0	36.7
Kazakhstan	38.6	27.0	68.2	26.4	33.7
Kuwait	3.9	-6.1	29.4	19.2	7.2
Libya	7.9	8.1	9.2	28.6	8.9
Oman	6.3	2.5	4.0	21.2	14.4
Qatar	12.3	4.8	20.8	27.9	5.7
Saudi Arabia	7.0	8.2	19.1	11.4	10.9
Syria	17.0	7.7	10.3	9.7	7.6
United Arab Emirates	12.4	16.1	23.2	26.8	15.2
Low-income countries	**28.6**	**26.8**	**32.8**	**37.8**	**26.5**
Afghanistan	37.4	37.7	42.4	18.4	34.0
Armenia	25.5	10.4	22.3	27.8	21.0
Djibouti	7.5	17.8	13.9	11.3	16.8
Georgia	19.0	22.8	42.6	26.4	29.0
Kyrgyz Republic	21.7	33.5	32.0	9.9	17.6
Mauritania	17.9	25.5	13.5	14.6	20.0
Sudan	28.3	30.3	32.1	44.7	28.0
Tajikistan	42.3	28.6	14.1	23.9	25.5
Uzbekistan	38.6	28.2	47.3	53.9	32.3
Yemen	17.5	20.0	15.0	14.4	15.4
Emerging markets	**10.5**	**15.3**	**14.9**	**15.0**	**14.8**
Egypt	11.2	16.9	13.2	13.6	17.8
Jordan	8.6	12.4	11.7	17.0	9.7
Lebanon	10.6	15.4	12.3	3.5	5.0
Morocco	9.0	8.6	7.7	14.0	7.7
Pakistan	10.4	18.5	20.4	18.1	16.9
Tunisia	10.9	6.3	10.3	10.8	10.4
Memorandum items:					
CIS	**32.8**	**26.8**	**53.8**	**30.7**	**36.7**
MENA	**15.3**	**15.8**	**19.3**	**19.9**	**19.0**
Of which					
GCC	**8.0**	**8.0**	**19.3**	**16.4**	**11.5**
Maghreb	**15.2**	**11.5**	**10.0**	**13.9**	**12.4**

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

Table 6. Central Government Fiscal Balance

(In percent of GDP)

	1998–2002 Average	2003	2004	2005	2006
Middle East and Central Asia	**-1.4**	**0.4**	**1.6**	**4.9**	**4.3**
Oil exporters	**0.1**	**3.6**	**5.7**	**12.2**	**11.0**
Algeria	1.5	8.3	6.9	14.2	12.6
Azerbaijan	-2.0	-0.8	1.0	2.7	8.6
Bahrain	-0.6	-2.0	0.3	1.9	1.7
Iran	0.1	-0.1	-0.3	4.2	2.4
Kazakhstan 1/	-1.9	2.9	2.6	6.0	3.9
Kuwait	20.5	18.0	23.6	36.8	42.7
Libya	5.0	14.2	17.5	32.9	37.3
Oman	3.4	4.4	4.7	10.6	13.2
Qatar	0.0	4.9	16.4	21.0	23.0
Saudi Arabia	-4.3	1.2	9.6	18.4	14.0
Syria 1/	-1.1	-2.7	-6.4	-3.4	-4.1
United Arab Emirates	1.3	13.0	18.3	24.9	28.4
Low-income countries	**-1.9**	**-1.1**	**0.2**	**-1.5**	**-1.8**
Afghanistan	-0.1	-3.0	-1.2	-2.0	0.3
Armenia	-4.6	-1.1	-1.8	-2.6	-2.8
Djibouti	-1.6	-2.3	-2.1	0.3	-0.1
Georgia 1/	-4.2	-2.5	3.1	-1.5	-2.2
Kyrgyz Republic 1/	-8.5	-5.4	-4.1	-4.0	-3.1
Mauritania	-5.8	-10.2	-2.7	-6.8	1.9
Sudan	0.0	0.7	1.5	-1.8	-0.9
Tajikistan 1/	-2.6	-1.4	-3.0	-2.9	-4.5
Uzbekistan 1/	-2.5	0.1	0.4	1.1	-2.4
Yemen	0.6	-4.8	-2.3	-2.4	-3.0
Emerging markets	**-3.9**	**-4.7**	**-5.2**	**-6.1**	**-6.0**
Egypt 1/	-2.8	-8.5	-9.8	-10.5	-11.1
Jordan	-4.5	-1.0	-1.7	-5.2	-4.4
Lebanon	-17.5	-13.2	-8.5	-7.9	-8.2
Morocco	-4.6	-5.2	-4.6	-5.7	-3.6
Pakistan 1/	-4.0	-1.6	-2.5	-3.4	-3.5
Tunisia 1/	-2.7	-3.1	-2.5	-3.0	-2.7
Memorandum items:					
CIS	**-2.6**	**0.8**	**1.3**	**2.9**	**2.0**
MENA	**-1.3**	**0.4**	**1.6**	**5.1**	**4.5**
Of which					
GCC	**-0.4**	**5.1**	**12.1**	**20.3**	**19.1**
Maghreb	**-0.4**	**3.4**	**3.5**	**8.3**	**8.8**

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

1/ General government.

Table 7. Central Government Total Revenue Excluding Grants

(In percent of GDP)

	1998–2002 Average	2003	2004	2005	2006
Middle East and Central Asia	**27.4**	**28.8**	**30.4**	**32.6**	**32.6**
Oil exporters	**30.5**	**33.8**	**36.4**	**40.3**	**39.7**
Algeria	33.0	37.5	36.1	41.1	42.1
Azerbaijan	20.8	26.7	26.8	26.8	33.6
Bahrain	28.9	30.9	30.9	31.8	32.0
Iran	25.9	27.6	30.5	32.2	30.6
Kazakhstan 1/	20.9	25.4	24.6	28.6	26.3
Kuwait	64.0	56.6	60.5	67.5	70.9
Libya	42.9	54.4	59.1	73.8	71.9
Oman	42.4	45.4	47.4	47.5	49.7
Qatar	35.4	35.1	43.5	45.4	46.1
Saudi Arabia	30.0	34.5	41.8	48.0	46.1
Syria 1/	28.2	30.4	26.7	28.7	29.4
United Arab Emirates	36.9	41.1	42.7	45.0	46.6
Low-income countries	**20.4**	**22.0**	**23.9**	**25.6**	**26.2**
Afghanistan	3.2	4.5	4.5	5.3	6.0
Armenia	16.1	14.6	15.0	15.4	15.2
Djibouti	24.0	28.2	29.0	31.2	29.6
Georgia 1/	15.1	15.7	20.5	22.5	21.6
Kyrgyz Republic 1/	20.0	21.7	22.3	23.9	23.0
Mauritania	23.5	25.5	26.9	23.5	22.5
Sudan	9.5	16.1	19.8	21.8	24.0
Tajikistan 1/	14.1	17.0	17.3	19.3	19.3
Uzbekistan 1/	36.7	32.0	31.6	31.9	32.2
Yemen	31.9	30.5	31.2	38.1	35.5
Emerging markets	**23.8**	**21.8**	**21.4**	**20.9**	**21.9**
Egypt 1/	27.7	27.2	26.3	24.3	27.5
Jordan	26.1	23.1	25.5	27.7	27.7
Lebanon	18.9	22.0	22.8	22.3	22.8
Morocco	25.8	24.5	25.1	27.1	27.0
Pakistan 1/	13.9	14.6	14.0	13.5	13.4
Tunisia 1/	29.4	29.5	29.8	29.8	29.5
Memorandum items:					
CIS	**23.3**	**25.3**	**25.2**	**27.4**	**27.3**
MENA	**27.8**	**29.1**	**30.9**	**33.1**	**33.2**
Of which					
GCC	**35.1**	**38.3**	**43.6**	**48.4**	**48.1**
Maghreb	**31.6**	**34.7**	**34.9**	**39.4**	**39.5**

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

1/ General government.

Table 8. Central Government Non-Oil Fiscal Balance

(In percent of GDP)

	1998–2002 Average	2003	2004	2005	2006
Oil exporters	**-18.7**	**-19.6**	**-19.8**	**-18.1**	**-18.8**
Algeria	-20.2	-17.3	-18.8	-17.2	-20.1
Azerbaijan	-7.2	-12.5	-9.4	-7.3	-11.7
Bahrain	-19.8	-25.0	-22.5	-22.1	-22.9
Iran	-14.0	-16.8	-19.1	-17.1	-17.7
Kazakhstan 1/	-4.2	-3.1	-4.4	-4.8	-4.8
Kuwait	-22.4	-25.5	-23.1	-16.4	-13.2
Libya	-22.5	-33.1	-33.6	-35.7	-29.5
Oman	-29.5	-30.9	-34.4	-29.4	-28.8
Qatar	-24.4	-17.6	-10.1	-7.2	-6.0
Saudi Arabia	-26.8	-27.5	-25.5	-25.3	-27.8
Syria 1/	-14.6	-18.3	-18.2	-15.0	-15.8
United Arab Emirates	-23.1	-19.8	-14.7	-10.1	-7.0

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

1/ General government.

Table 9. Central Government Non-Oil Revenue

(In percent of GDP)

	1998–2002 Average	2003	2004	2005	2006
Oil exporters	**11.8**	**10.5**	**10.8**	**10.0**	**9.9**
Algeria	11.4	11.9	10.5	9.7	9.5
Azerbaijan 1/	15.7	15.0	16.4	16.8	13.3
Bahrain	9.7	8.0	8.1	7.9	7.4
Iran	11.7	10.9	11.7	11.0	10.5
Kazakhstan 2/	18.0	19.4	17.5	17.8	17.6
Kuwait	21.1	13.1	13.8	14.3	14.9
Libya	15.4	7.0	8.0	5.3	5.1
Oman	9.4	10.1	8.2	7.5	7.7
Qatar	11.0	12.6	17.0	17.2	17.0
Saudi Arabia	7.5	5.8	6.6	4.3	4.3
Syria 2/	14.8	14.8	14.9	17.1	17.8
United Arab Emirates	12.5	8.4	9.7	9.9	11.2

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

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

2/ General government.

Table 10. Central Government Total Expenditure and Net Lending

(In percent of GDP)

	1998–2002 Average	2003	2004	2005	2006
Middle East and Central Asia	**28.5**	**29.7**	**29.7**	**27.9**	**28.6**
Oil exporters	**30.4**	**31.5**	**31.4**	**27.9**	**28.7**
Algeria 1/	31.0	35.1	32.5	27.1	29.6
Azerbaijan 2/	22.9	28.5	25.9	24.3	25.1
Bahrain	27.7	25.8	22.3	22.2	21.8
Iran	26.2	29.0	31.8	28.1	28.3
Kazakhstan 3/	23.0	22.5	22.0	22.6	22.4
Kuwait	43.5	38.6	36.9	30.7	28.1
Libya	37.4	44.6	43.8	36.1	34.6
Oman	38.4	39.6	39.0	37.0	36.6
Qatar	35.4	30.2	29.5	25.0	23.0
Saudi Arabia	34.4	33.3	32.1	29.6	32.1
Syria 3/	29.3	33.1	33.1	32.1	33.5
United Arab Emirates	35.1	27.8	24.2	19.8	18.1
Low-income countries	**23.1**	**24.0**	**24.7**	**28.1**	**28.5**
Afghanistan	8.5	14.0	13.9	15.7	16.5
Armenia	22.4	18.9	17.2	18.4	19.6
Djibouti	32.4	36.6	38.1	37.2	34.9
Georgia 3/	19.8	18.7	18.6	24.9	25.0
Kyrgyz Republic 3/	30.3	27.4	27.2	28.3	27.1
Mauritania	32.4	39.7	32.1	32.3	22.0
Sudan	10.5	15.3	19.0	24.1	24.9
Tajikistan 3/	16.8	18.8	20.9	23.0	24.1
Uzbekistan 3/	39.2	33.9	32.3	32.9	35.0
Yemen	32.2	35.7	34.2	40.5	39.1
Emerging markets	**26.0**	**27.8**	**27.9**	**27.9**	**28.4**
Egypt 3/	31.7	36.5	37.1	35.4	38.9
Jordan	35.0	35.9	38.0	37.7	34.4
Lebanon	36.5	35.2	31.3	30.2	31.0
Morocco	30.5	29.9	30.0	33.2	30.8
Pakistan 3/	18.4	17.8	17.8	18.1	17.7
Tunisia 3/	32.4	32.8	32.5	32.9	32.5
Memorandum items:					
CIS	**26.2**	**25.3**	**24.4**	**25.1**	**25.6**
MENA	**28.7**	**30.1**	**30.2**	**28.2**	**28.8**
Of which					
GCC	**35.4**	**32.8**	**31.1**	**27.9**	**28.8**
Maghreb	**31.9**	**34.6**	**33.2**	**30.8**	**30.9**

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

1/ Including special accounts.
2/ Expenditures do not include statistical discrepancy.
3/ General government.

Table 11. Central Government Wages and Salaries

(In percent of GDP)

	1998–2002 Average	2003	2004	2005	2006
Middle East and Central Asia	**9.7**	**8.3**	**8.2**	**7.8**	**7.6**
Oil exporters	**10.4**	**8.2**	**8.1**	**7.4**	**7.2**
Algeria	8.1	7.6	7.3	6.5	6.1
Azerbaijan	4.6	4.4	5.0	4.9	4.0
Bahrain	14.8	14.1	13.0	12.2	11.2
Iran	8.9	5.9	5.4	5.0	4.6
Kazakhstan 1/	3.4	3.2	3.6	3.6	3.6
Kuwait	15.5	13.0	11.6	9.6	8.8
Libya	13.5	9.4	9.1	8.8	7.8
Oman	9.2	9.1	8.4	7.3	6.9
Qatar	10.6	7.2	6.1	4.7	4.0
Saudi Arabia	17.0	14.8	15.7	14.5	14.9
Syria 1/	4.3	5.6	6.3	5.8	6.3
United Arab Emirates	6.0	4.8	4.2	3.8	3.5
Low-income countries	**4.4**	**4.9**	**5.1**	**5.4**	**5.9**
Afghanistan	...	6.5	6.6	5.9	5.6
Armenia	2.7	2.2	2.1	2.0	2.1
Djibouti	15.1	14.3	13.9	13.5	12.7
Georgia 1/	3.0	3.1	3.1	3.9	3.8
Kyrgyz Republic 1/	4.9	5.7	5.8	6.3	6.3
Mauritania	4.9	4.6	4.3	6.9	5.4
Sudan	3.4	4.1	4.9	4.5	5.1
Tajikistan 1/	3.5	2.7	2.7	3.7	4.5
Uzbekistan 1/	6.7	6.5	6.2	7.4	8.3
Yemen	7.1	6.6	6.4	6.8	7.3
Emerging markets	**9.3**	**9.7**	**9.5**	**9.5**	**9.2**
Egypt 1/	7.1	8.2	7.8	7.5	7.5
Jordan	6.1	5.8	5.4	5.4	5.2
Lebanon	7.7	7.4	7.0	7.0	6.8
Morocco	12.0	12.7	12.8	13.5	12.2
Pakistan 1/	...	...	...	...	...
Tunisia 1/	11.8	12.4	12.3	12.5	12.4
Memorandum items:					
CIS	**4.3**	**4.1**	**4.3**	**4.6**	**4.7**
MENA	**10.0**	**8.8**	**8.6**	**8.1**	**7.9**
Of which					
GCC	**13.9**	**12.0**	**12.2**	**11.1**	**11.1**
Maghreb	**10.3**	**9.9**	**9.7**	**9.6**	**8.9**

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

1/ General government.

Table 12. Total Government Debt

(In percent of GDP)

	1998–2002 Average	2003	2004	2005	2006
Middle East and Central Asia	**64.8**	**58.9**	**52.8**	**46.8**	**40.1**
Oil exporters	**44.7**	**37.9**	**31.7**	**24.7**	**18.3**
Algeria	71.9	43.8	36.6	28.5	24.0
Azerbaijan	21.9	21.8	20.2	15.3	11.6
Bahrain	29.0	37.1	35.1	31.7	28.2
Iran	23.7	19.5	19.9	16.5	13.1
Kazakhstan 1/	19.1	14.9	11.4	8.2	7.3
Kuwait	42.7	24.9	19.4	13.1	10.6
Libya	51.6	27.4	1.6	1.2	1.0
Oman	27.4	16.4	15.5	11.0	9.4
Qatar	75.2	55.0	42.2	30.5	24.6
Saudi Arabia	92.6	82.0	65.0	46.5	27.1
Syria 1/	65.4	65.4	60.1	59.9	55.1
United Arab Emirates	5.5	6.6	8.4	8.4	7.4
Low-income countries	**119.7**	**94.9**	**79.4**	**66.4**	**55.7**
Afghanistan	...	...	...	...	...
Armenia	46.6	40.9	32.6	26.8	24.0
Djibouti	62.7	69.5	69.3	63.8	60.8
Georgia 1/	69.0	60.8	45.2	35.5	30.5
Kyrgyz Republic 1/	117.6	103.7	92.9	90.4	84.5
Mauritania	226.8	170.9	177.8	152.2	93.7
Sudan	186.3	150.4	122.4	98.5	83.2
Tajikistan 1/	89.3	67.3	44.7	42.1	35.9
Uzbekistan 1/	38.5	38.8	34.9	30.8	25.3
Yemen	110.3	52.3	44.9	41.7	38.8
Emerging markets	**83.0**	**87.1**	**83.3**	**80.6**	**74.3**
Egypt 1/	82.5	112.5	111.1	109.1	100.1
Jordan	105.1	100.0	91.0	86.2	74.0
Lebanon	144.8	167.8	164.7	174.6	160.6
Morocco	77.8	68.9	65.8	70.0	68.6
Pakistan 1/	84.8	73.3	67.1	60.2	54.2
Tunisia 1/	60.2	60.4	59.7	59.0	56.4
Memorandum items:					
CIS	**40.4**	**30.4**	**25.2**	**21.1**	**18.1**
MENA	**66.6**	**61.6**	**55.4**	**49.3**	**42.2**
Of which					
GCC	**50.0**	**56.0**	**45.2**	**32.9**	**20.6**
Maghreb	**71.2**	**52.7**	**45.5**	**42.6**	**39.0**

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

1/ General government.

Table 13. Export of Goods and Services Growth (U.S. dollars)

(Annual change; in percent)

	1998–2002 Average	2003	2004	2005	2006
Middle East and Central Asia	**8.9**	**21.3**	**27.9**	**27.9**	**17.0**
Oil exporters	**10.9**	**24.4**	**31.9**	**35.7**	**17.1**
Algeria	10.9	30.1	30.9	42.6	18.8
Azerbaijan	20.6	14.5	38.6	70.4	73.8
Bahrain	8.7	15.0	15.0	30.4	15.8
Iran	14.3	21.0	28.2	30.4	13.5
Kazakhstan	10.2	29.2	51.3	35.2	17.5
Kuwait	5.1	46.4	33.8	45.9	22.0
Libya	9.1	47.9	40.6	43.3	20.1
Oman	11.3	5.4	15.1	27.2	18.2
Qatar	23.8	21.6	37.9	43.9	21.9
Saudi Arabia	7.5	27.5	33.3	41.7	17.8
Syria	4.7	-11.9	39.6	4.7	4.7
United Arab Emirates	6.6	27.2	21.8	32.0	14.4
Low-income countries	**15.2**	**24.8**	**34.2**	**21.9**	**37.2**
Afghanistan	...	49.1	-12.5	15.2	5.0
Armenia	16.4	29.5	9.0	35.0	12.4
Djibouti	3.3	8.9	-0.8	5.2	3.8
Georgia	10.8	28.9	48.7	11.0	7.5
Kyrgyz Republic	-0.5	16.4	26.4	0.0	13.8
Mauritania	-2.2	-14.1	31.6	46.9	197.0
Sudan	33.7	30.9	46.3	29.2	63.0
Tajikistan	1.0	23.2	22.9	2.9	19.5
Uzbekistan	-5.3	26.4	28.1	9.8	10.0
Yemen	14.5	9.2	18.6	33.6	6.2
Emerging markets	**4.1**	**15.2**	**19.8**	**15.8**	**12.6**
Egypt	2.1	14.0	27.5	20.4	15.2
Jordan	14.2	6.1	23.2	11.7	8.1
Lebanon	5.8	12.7	18.4	7.9	8.3
Morocco	5.2	16.7	17.6	8.8	4.5
Pakistan	4.8	16.4	14.0	17.1	15.9
Tunisia	3.1	14.7	21.4	8.1	4.4
Memorandum items:					
CIS	**8.1**	**25.8**	**40.4**	**30.9**	**22.8**
MENA	**9.0**	**20.8**	**26.7**	**27.6**	**16.5**
Of which					
GCC	**8.1**	**26.8**	**29.5**	**38.9**	**17.6**
Maghreb	**7.8**	**25.8**	**27.1**	**28.4**	**15.2**

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

Table 14. Import of Goods and Services Growth (U.S. dollars)

(Annual change; in percent)

	1998–2002 Average	2003	2004	2005	2006
Middle East and Central Asia	**4.9**	**17.3**	**25.7**	**21.8**	**17.1**
Oil exporters	**6.9**	**19.3**	**24.3**	**17.6**	**17.6**
Algeria	7.3	12.3	34.1	15.3	21.4
Azerbaijan	10.4	52.7	32.4	7.1	18.6
Bahrain	5.7	10.3	13.9	32.5	14.2
Iran	12.1	33.3	20.3	11.1	12.8
Kazakhstan	8.2	14.9	41.3	31.9	17.5
Kuwait	2.0	17.9	20.6	11.4	8.4
Libya	5.6	-1.7	21.4	20.3	16.4
Oman	4.7	10.0	28.5	20.8	18.9
Qatar	3.7	11.5	11.9	13.1	11.2
Saudi Arabia	-0.1	10.2	19.7	26.6	29.0
Syria	6.0	-0.9	31.8	10.2	6.9
United Arab Emirates	5.0	20.5	18.0	18.8	10.4
Low-income countries	**7.4**	**16.0**	**31.0**	**36.3**	**19.5**
Afghanistan	...	60.2	2.5	16.0	9.5
Armenia	3.3	27.0	7.7	29.6	12.8
Djibouti	0.6	18.0	18.8	10.8	9.1
Georgia	0.1	33.7	46.9	13.7	9.7
Kyrgyz Republic	0.2	15.7	29.7	25.1	13.1
Mauritania	4.5	16.5	58.8	28.6	10.6
Sudan	15.7	15.2	38.1	65.6	24.0
Tajikistan	2.0	22.9	27.1	15.9	20.0
Uzbekistan	0.8	8.9	27.5	11.5	15.0
Yemen	5.8	14.6	7.7	18.9	30.8
Emerging markets	**0.9**	**14.1**	**27.0**	**26.0**	**15.8**
Egypt	0.2	0.2	18.8	29.8	21.1
Jordan	6.6	9.1	35.0	26.4	5.6
Lebanon	0.7	9.8	21.7	-3.7	6.8
Morocco	4.7	19.8	24.4	12.1	8.0
Pakistan	-1.0	23.6	36.2	34.7	18.0
Tunisia	3.8	14.4	18.4	3.4	5.8
Memorandum items:					
CIS	**5.7**	**21.0**	**34.9**	**22.3**	**16.3**
MENA	**4.8**	**16.9**	**24.8**	**21.8**	**17.2**
Of which					
GCC	**1.7**	**12.9**	**19.6**	**23.1**	**21.9**
Maghreb	**5.8**	**13.0**	**27.8**	**13.4**	**14.6**

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

Table 15. Terms of Trade

(Annual change; in percent)

	1998–2002 Average	2003	2004	2005	2006
Middle East and Central Asia	**5.0**	**2.7**	**6.7**	**12.4**	**4.5**
Oil exporters	**10.2**	**4.3**	**14.7**	**26.2**	**10.2**
Algeria	11.6	9.3	13.6	29.4	16.9
Azerbaijan	18.3	13.2	13.9	17.0	-2.2
Bahrain	4.7	-0.2	10.9	13.1	5.7
Iran	...	...	...	...	...
Kazakhstan	4.9	2.2	11.9	17.1	8.5
Kuwait	16.6	-1.1	10.5	36.4	15.1
Libya	...	...	...	...	...
Oman	...	...	...	...	...
Qatar	...	...	...	...	...
Saudi Arabia	11.1	2.4	21.3	34.2	9.2
Syria	3.2	0.6	-4.6	-6.1	-0.6
United Arab Emirates	...	...	...	...	...
Low-income countries	**6.1**	**4.3**	**9.8**	**12.9**	**3.4**
Afghanistan	...	...	...	...	...
Armenia	-1.7	0.9	-0.1	-2.6	-0.9
Djibouti	-1.6	5.8	1.1	-3.7	-2.4
Georgia	-1.1	-10.3	-9.1	-6.5	0.3
Kyrgyz Republic	3.3	2.7	0.5	-0.5	5.0
Mauritania	1.5	-11.8	5.6	25.6	83.2
Sudan	11.3	8.9	20.8	24.4	-4.6
Tajikistan	-6.4	1.3	3.5	-14.6	5.6
Uzbekistan	2.9	5.6	-0.9	-0.7	3.2
Yemen	12.8	2.3	22.3	39.8	13.1
Emerging markets	**0.0**	**0.9**	**-1.2**	**-0.2**	**-0.4**
Egypt	1.9	2.2	2.7	6.8	2.1
Jordan	-2.8	-9.4	-3.4	-6.7	-2.9
Lebanon	1.7	-11.2	-8.3	-5.3	0.8
Morocco	-0.3	5.7	-8.1	-4.5	-3.3
Pakistan	-1.0	0.0	-1.3	-3.1	-0.5
Tunisia	-1.1	-1.5	-0.5	-1.8	-3.2
Memorandum items:					
CIS	**5.2**	**3.6**	**6.9**	**9.2**	**4.7**
MENA	**5.0**	**2.5**	**6.6**	**12.8**	**4.5**
Of which					
GCC	**11.5**	**1.9**	**19.7**	**33.6**	**9.7**
Maghreb	**5.5**	**6.0**	**4.4**	**13.5**	**8.1**

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

Table 16. Nominal Effective Exchange Rate

(Annual percent change; increase indicates appreciation)

	1998–2002 Average	2003	2004	2005
Middle East and Central Asia	**-1.6**	**-10.3**	**-5.8**	**-1.5**
Oil exporters	**-0.4**	**-9.1**	**-5.7**	**-2.8**
Algeria	-0.7	-8.9	-0.1	-2.8
Azerbaijan	11.3	-5.6	-4.3	3.4
Bahrain	2.1	-7.9	-5.1	-0.8
Iran	-4.0	-12.4	-10.9	-6.3
Kazakhstan	-1.2	-3.8	4.3	1.3
Kuwait	3.6	-5.9	-3.9	0.4
Libya	-10.6	-13.2	-8.7	-1.4
Oman	1.9	-6.3	-4.4	-0.3
Qatar	2.3	-7.9	-5.3	-0.9
Saudi Arabia	2.8	-7.3	-4.9	-0.7
Syria	5.4	-8.7	-6.4	-5.2
United Arab Emirates	3.7	-6.9	-4.2	-0.2
Low-income countries	**-9.3**	**-10.6**	**-3.7**	**0.4**
Afghanistan	...	...	...	...
Armenia	10.4	-6.9	3.5	15.6
Djibouti	3.7	-7.3	-4.1	-0.6
Georgia	8.6	-2.8	6.5	2.3
Kyrgyz Republic	-4.5	3.0	-1.7	2.5
Mauritania	-6.9	-10.5	-7.6	-1.4
Sudan	-5.7	-4.5	-3.0	4.4
Tajikistan	-17.4	-13.9	-1.2	-6.3
Uzbekistan	-29.5	-26.4	-9.5	-7.9
Yemen	-0.6	-10.1	-4.6	-4.3
Emerging markets	**-2.0**	**-12.1**	**-6.5**	**0.2**
Egypt	-0.8	-30.2	-11.6	6.2
Jordan	4.3	-6.2	-4.3	-1.1
Lebanon	4.8	-9.6	-5.9	-0.9
Morocco	0.1	0.0	-0.3	-0.5
Pakistan	-4.7	-4.1	-5.4	-3.1
Tunisia	-0.9	-5.4	-4.7	-4.4
Memorandum items:				
CIS	**-4.7**	**-8.8**	**0.0**	**0.3**
MENA	**-1.3**	**-10.4**	**-6.4**	**-1.7**
Of which				
GCC	**3.0**	**-7.1**	**-4.7**	**-0.5**
Maghreb	**-1.8**	**-6.5**	**-2.0**	**-2.2**

Sources: IMF Information Notice System (INS); and IMF staff estimates.

Table 17. Real Effective Exchange Rate

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

	1998–2002 Average	2003	2004	2005
Middle East and Central Asia	**-0.1**	**-7.9**	**-2.3**	**1.7**
Oil exporters	**1.0**	**-6.0**	**-2.6**	**0.2**
Algeria	-2.4	-9.5	0.7	-3.9
Azerbaijan	-3.9	-10.8	-3.5	7.3
Bahrain	0.4	-7.4	-4.6	-0.4
Iran	5.9	-1.1	-0.7	3.1
Kazakhstan	-3.4	-3.6	5.8	3.1
Kuwait	1.7	-7.2	-5.1	2.0
Libya	-15.4	-17.3	-13.1	-2.3
Oman	-0.4	-8.7	-6.3	-1.3
Qatar	1.5	-6.2	-0.6	7.0
Saudi Arabia	0.1	-8.5	-6.7	-2.6
Syria	-0.2	-6.6	-5.4	-1.7
United Arab Emirates	3.3	-6.9	-4.5	-0.5
Low-income countries	**-2.5**	**-6.8**	**0.0**	**6.8**
Afghanistan	...	...	...	...
Armenia	0.8	-9.0	4.2	9.5
Djibouti	3.1	-9.3	-3.6	-1.8
Georgia	-1.7	-6.5	5.6	3.2
Kyrgyz Republic	-3.8	-0.6	-3.2	1.2
Mauritania	-2.9	-8.6	-0.3	8.0
Sudan	0.6	0.0	1.7	10.2
Tajikistan	-2.1	-5.6	0.2	-5.7
Uzbekistan	-11.7	-19.8	-6.4	5.9
Yemen	6.0	-3.4	4.2	4.0
Emerging markets	**-1.4**	**-11.6**	**-2.3**	**3.2**
Egypt	-1.4	-29.1	-4.1	8.4
Jordan	2.6	-7.2	-3.8	-0.3
Lebanon	3.0	-10.7	-7.5	-5.0
Morocco	0.1	-1.0	-1.2	-1.7
Pakistan	-2.6	-3.2	-0.7	3.2
Tunisia	-0.6	-5.0	-3.4	-4.5
Memorandum items:				
CIS	**-4.8**	**-8.3**	**1.3**	**4.2**
MENA	**0.4**	**-7.9**	**-2.7**	**1.5**
Of which				
GCC	**0.9**	**-8.0**	**-5.8**	**-1.3**
Maghreb	**-3.0**	**-7.5**	**-2.2**	**-3.1**

Sources: IMF Information Notice System (INS); and IMF staff estimates.

Table 18. External Current Account Balance

(In percent of GDP)

	1998–2002 Average	2003	2004	2005	2006
Middle East and Central Asia	**2.6**	**6.7**	**9.4**	**14.7**	**15.7**
Oil exporters	**5.1**	**9.5**	**13.6**	**21.4**	**22.8**
Algeria	7.1	13.0	13.1	21.3	18.9
Azerbaijan	-12.1	-27.8	-30.0	-5.2	17.7
Bahrain	0.1	2.3	4.0	5.8	7.3
Iran	5.1	0.6	2.5	7.5	7.6
Kazakhstan	-2.4	-0.9	1.2	1.8	2.3
Kuwait	19.9	20.4	31.1	43.3	49.9
Libya	9.5	21.5	24.2	40.2	43.3
Oman	1.2	4.0	1.7	7.0	8.5
Qatar	8.0	25.9	37.9	45.6	51.7
Saudi Arabia	2.1	13.1	20.5	28.3	28.3
Syria	3.2	3.2	-2.0	-5.5	-7.3
United Arab Emirates	7.0	8.7	11.8	22.0	27.0
Low-income countries	**-5.0**	**-2.0**	**-1.6**	**-3.2**	**-3.1**
Afghanistan	-3.5	3.1	1.8	0.6	-1.3
Armenia	-13.8	-6.8	-4.5	-3.3	-3.9
Djibouti	0.9	5.5	-0.8	-4.2	-3.6
Georgia	-8.2	-7.3	-8.3	-7.4	-7.1
Kyrgyz Republic	-3.6	-4.1	-3.4	-8.1	-6.8
Mauritania	-6.2	-18.3	-36.8	-35.5	3.3
Sudan	-14.3	-7.7	-6.3	-10.7	-6.9
Tajikistan	-6.2	-1.3	-4.0	-3.4	-4.2
Uzbekistan	0.1	8.7	10.0	10.8	9.6
Yemen	4.8	-0.1	1.9	2.6	-5.2
Emerging markets	**-2.0**	**1.5**	**0.1**	**-1.6**	**-2.5**
Egypt	-1.1	2.4	4.3	2.8	1.3
Jordan	2.3	11.4	-0.5	-17.8	-16.0
Lebanon	-20.0	-15.2	-18.2	-12.7	-12.9
Morocco	1.3	3.6	2.2	0.9	-0.8
Pakistan	-0.5	3.4	0.2	-2.4	-3.2
Tunisia	-3.5	-2.9	-2.0	-1.3	-1.4
Memorandum items:					
CIS	**-4.1**	**-3.4**	**-2.1**	**1.0**	**4.6**
MENA	**2.9**	**7.4**	**10.2**	**15.8**	**16.7**
Of which					
GCC	**5.2**	**12.9**	**19.6**	**28.3**	**30.9**
Maghreb	**4.7**	**9.0**	**9.5**	**16.4**	**16.4**

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

Table 19. Gross Official Reserves

(In billions of U.S. dollars)

	1998–2002 Average	2003	2004	2005	2006
Middle East and Central Asia	**163.5**	**258.8**	**323.8**	**439.8**	**534.5**
Oil exporters	**122.0**	**191.8**	**252.9**	**362.4**	**446.3**
Algeria	12.9	32.9	43.1	56.2	76.0
Azerbaijan	0.7	0.8	1.1	1.2	2.0
Bahrain	1.2	1.4	1.6	1.7	1.8
Iran	12.5	24.7	33.0	47.8	64.5
Kazakhstan	2.3	5.0	9.3	7.1	9.3
Kuwait	7.1	7.7	8.4	9.5	11.3
Libya	11.1	19.5	25.6	39.2	56.2
Oman	2.6	3.6	3.6	4.4	4.8
Qatar	1.3	2.9	3.4	4.3	4.9
Saudi Arabia 1/	45.2	59.8	86.7	150.6	172.3
Syria	12.5	18.5	18.6	17.3	16.1
United Arab Emirates	12.7	15.1	18.6	23.0	27.2
Low-income countries	**4.9**	**8.7**	**11.7**	**13.7**	**16.0**
Afghanistan	0.4	0.7	1.3	1.5	1.9
Armenia	0.4	0.5	0.5	0.7	0.8
Djibouti	0.1	0.1	0.1	0.1	0.1
Georgia	0.1	0.2	0.4	0.5	0.6
Kyrgyz Republic	0.3	0.4	0.6	0.6	0.6
Mauritania	0.1	0.0	0.0	0.1	0.1
Sudan	0.1	0.5	1.3	1.9	2.6
Tajikistan	0.1	0.1	0.2	0.2	0.3
Uzbekistan	1.2	1.7	2.1	2.9	3.2
Yemen	2.5	4.4	5.1	5.3	5.8
Emerging markets	**36.6**	**58.3**	**59.2**	**63.8**	**72.2**
Egypt	16.4	14.8	14.8	19.3	22.8
Jordan	2.4	4.7	4.8	4.7	4.4
Lebanon	5.9	10.2	9.5	9.9	10.6
Morocco	6.6	13.7	16.3	16.1	16.8
Pakistan	3.3	11.8	9.8	9.4	12.2
Tunisia	2.0	2.9	4.0	4.4	5.4
Memorandum items:					
CIS	**5.1**	**8.6**	**14.2**	**13.1**	**16.7**
MENA	**158.3**	**249.4**	**308.3**	**425.2**	**515.9**
Of which					
GCC	**70.1**	**90.5**	**122.2**	**193.6**	**222.2**
Maghreb	**32.7**	**69.1**	**89.0**	**115.9**	**154.5**

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

1/ Saudi Arabia Monetary Agency net foreign assets.

Table 20. Total Gross External Debt

(In percent of GDP) 1/

	1998–2002 Average	2003	2004	2005	2006
Middle East and Central Asia	**39.9**	**35.0**	**32.5**	**28.5**	**25.7**
Oil exporters	**26.7**	**21.6**	**20.4**	**18.3**	**16.3**
Algeria	49.6	34.3	25.7	16.3	12.6
Azerbaijan	18.5	19.7	18.5	14.3	10.6
Bahrain	28.6	30.5	24.4	24.4	28.7
Iran	9.4	9.0	10.4	8.6	6.5
Kazakhstan	65.8	74.1	74.4	72.5	67.4
Kuwait	32.5	26.8	22.9	16.9	14.8
Libya	...	...	...	...	...
Oman	35.8	18.8	17.7	11.9	10.2
Qatar	100.8	58.1	55.1	45.3	39.7
Saudi Arabia	16.1	11.1	11.0	10.7	10.8
Syria	39.6	31.5	31.2	33.9	30.6
United Arab Emirates	29.5	18.7	18.3	24.9	24.4
Low-income countries	**107.0**	**90.7**	**77.1**	**64.2**	**53.8**
Afghanistan	12.7	13.5	12.1	11.5	10.6
Armenia	43.8	39.1	33.3	25.0	21.8
Djibouti	54.1	68.4	70.0	70.9	66.3
Georgia	52.4	46.8	42.3	35.9	34.0
Kyrgyz Republic	129.5	98.3	95.0	87.5	83.3
Mauritania	184.9	132.8	135.5	109.1	70.4
Sudan	176.2	145.4	120.3	97.5	79.9
Tajikistan	101.7	66.3	41.8	39.5	34.5
Uzbekistan	32.4	43.7	37.5	33.1	28.9
Yemen	61.9	44.7	39.3	34.0	30.5
Emerging markets	**47.2**	**45.1**	**42.8**	**37.8**	**35.3**
Egypt	30.6	36.1	37.9	31.1	27.9
Jordan	84.0	74.8	65.5	57.9	50.6
Lebanon	134.8	173.9	184.5	188.6	187.1
Morocco	51.6	38.4	33.2	27.6	26.2
Pakistan	47.8	39.1	33.9	30.3	27.9
Tunisia	61.6	71.7	70.4	65.1	64.4
Memorandum items:					
CIS	**54.3**	**57.6**	**54.8**	**51.2**	**46.8**
MENA	**38.5**	**32.8**	**30.3**	**26.3**	**23.7**
Of which					
GCC	**25.0**	**16.7**	**15.9**	**15.7**	**15.3**
Maghreb	**54.3**	**43.6**	**37.5**	**29.8**	**26.8**

Sources: Data provided by country authorities; and IMF staff estimates and projections.
1/ Nominal GDP is converted to US dollars using period average exchange rate.