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Preface

The Middle East and Central Asia *Regional Economic Outlook* (REO) is prepared biannually by the IMF's Middle East and Central Asia Department (MCD). The analysis and projections contained in the MCD REO are integral elements of the Department's surveillance of economic developments and policies in 30 member countries. It draws primarily on information gathered by MCD staff through their consultations with member countries.

The analysis in this report was coordinated under the general supervision of Masood Ahmed (Director of MCD). The project was directed by Ratna Sahay (Deputy Director in MCD) and Ralph Chami (Chief of MCD's Regional Studies Division). Special thanks to Peter Montiel for helping develop the themes for this REO.

The primary contributors to this report are Yasser Abdih, Adolfo Barajas, Tobias Rasmussen, and Axel Schimmelpfennig. Other contributors include Maria Albino-War, Ali Al-Eyd, Martin Banjo, Anjali Garg, Dominique Guillaume, Jiri Jones, Udo Kock, Kamiar Mohaddes, Kenji Moriyama, Nienke Oomes, Paul Ross, Dmitriy Rozhkov, Abdelhak Senhadji, Gabriel Sensenbrenner, Anke Weber, Niklas Westelius, Jaroslaw Wieczorek, and Oral Williams.

Jaime Espinosa and Anjali Garg provided research assistance and managed the database and the computer systems. Jasmine Lief, with support from Sonia Lowman, was responsible for word processing and document management. Christine Ebrahimzadeh edited the manuscript and managed the production of the publication in close collaboration with Joanne Blake and Martha Bonilla of the External Relations Department.

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 price of oil will average US$76.20 a barrel in 2010 and US$78.75 in 2011; and that the six-month London interbank offered rate (LIBOR) on U.S. dollar deposits will average 0.6 percent in 2010 and 0.8 percent in 2011. 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 2010 and 2011 data in the figures and tables are projections. These projections are based on statistical information available through September 22, 2010.

The following conventions are used in this publication:

- In tables, 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, 2009–10 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, 2009/10) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY2010).

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

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

As used in this publication, 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.

Country and Regional Groupings

The October 2010 *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 in 2009 and prospects and policy issues for the remainder of 2010 and 2011. To facilitate the analysis, the 30 MCD countries covered in this report are divided into two groups: (1) countries of the Middle East, North Africa, Afghanistan, and Pakistan (MENAP)—which are further subdivided into oil exporters and oil importers; and (2) countries of the Caucasus and Central Asia (CCA). The country acronyms used in some figures are included in parentheses.

MENAP oil exporters comprise Algeria (ALG), Bahrain (BHR), Iran (IRN), Iraq (IRQ), Kuwait (KWT), Libya (LBY), Oman (OMN), Qatar (QAT), Saudi Arabia (SAU), Sudan (SDN), the United Arab Emirates (UAE), and Yemen (YMN).

MENAP oil importers comprise Afghanistan (AFG), Djibouti (DJI), Egypt (EGY), Jordan (JOR), Lebanon (LBN), Mauritania (MRT), Morocco (MAR), Pakistan (PAK), Syria (SYR), and Tunisia (TUN).

CCA countries comprise Armenia (ARM), Azerbaijan (AZE), Georgia (GEO), Kazakhstan (KAZ), the Kyrgyz Republic (KGZ), Tajikistan (TJK), Turkmenistan (TKM), and Uzbekistan (UZB).

In addition, the following geographical groupings are used:

The CIS (Commonwealth of Independent States) comprises Armenia, Azerbaijan, Belarus, Kazakhstan, the Kyrgyz Republic, Moldova, Mongolia, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Georgia and Mongolia, which are not members of the CIS, are included in this group for reasons of geography and similarities in economic structure.

The GCC (Gulf Cooperation Council) comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

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

The Mashreq comprises Egypt, Jordan, Lebanon, and Syria.

Highlights

With the global economy on the mend, prospects for the Middle East and Central Asia region have improved.[1] Almost every country in the region is projected to grow faster in 2010 and 2011 than in 2009. Given this pickup in growth, most of the region's countries plan to exit from fiscal stimulus by 2011, while maintaining an accommodative monetary policy stance for some time. However, some countries may need to tighten macroeconomic policies earlier, given signs of inflationary pressures or lack of fiscal space.

As the region recovers from the Great Recession, policy attention should center on strengthening banking sectors and addressing medium-term challenges. In the MENAP oil exporters, further efforts at financial sector development and economic diversification top the agenda. In the MENAP oil importers, raising growth and creating jobs for expanding populations are key. In the CCA, the priority is to resolve banking sector problems, and, in some countries, to reduce external debt and current account deficits.

MENAP Oil Exporters: Well Placed to Focus on Medium-Term Challenges

MENAP oil exporters' fiscal and external balances will improve markedly in response to rising oil prices (up from US$62 per barrel in 2009 to US$76 in 2010 and US$79 in 2011) and oil production levels. The combined external current account surplus of these countries is expected to increase to US$120 billion in 2010 and US$150 billion in 2011 from US$70 billion in 2009. In the Gulf Cooperation Council (GCC) alone, the improvement is estimated at about US$50 billion from 2009 to 2011.

Oil GDP growth—projected at 3½–4½ percent in 2010 and 2011—is likely to stay below precrisis levels. Moreover, while external financing conditions have improved, domestic credit is picking up only slowly, and investment demand is subdued. As such, growth in non-oil activity remains lackluster at 3¾–4½ percent, indicating a need for continued policy support through 2011 in most countries.

Most countries with fiscal space—mainly the GCC, Algeria, and Libya—target additional fiscal stimulus in 2010 and 2011. But some, including Saudi Arabia, are seeing inflation picking up, which may call for a tempering of stimulus in 2011. Iran, Sudan, and Yemen have less fiscal space and have already embarked on fiscal consolidation. In most countries, monetary policy remains expansionary to revive private-sector credit growth, although some central banks are starting to unwind their quantitative easing.

Over the medium term, all oil producers—to differing degrees—will need to pursue fiscal consolidation to safeguard the sustainable use of hydrocarbon revenues, while promoting diversification and employment creation. Measures to support these goals include reorienting spending toward social and development needs, revisiting energy subsidies, and diversifying the revenue base.

Banking system development requires continued attention. Nonperforming loans remain elevated in a number of countries. Regulatory frameworks and supervision should be strengthened in line with global efforts to reduce regulatory cyclicality, strengthen liquidity and capital buffers, address systemically important institutions, and enhance bank resolution practices. Saudi Arabia's countercyclical provisioning provides an example of successful implementation of such macroprudential policies.

[1] The Middle East and Central Asia region comprises Middle East, North Africa, Afghanistan, and Pakistan (MENAP) oil-exporting countries; MENAP oil-importing countries; and the Caucasus and Central Asia (CCA).

Note: Translations of these Highlights into Arabic, French, and Russian follow on pages 5, 6, and 9.

MENAP Oil Importers: Adjusting to New Global Growth Patterns

MENAP oil importers have weathered the global recession well, and are close to their long-term growth trend. Most countries are set to grow by 3½–5½ percent in 2010–11. Pakistan suffered from devastating floods in July/August, which will hold back growth this year.

The region has also remained resilient to recent turbulence in global financial markets. Private-sector credit is picking up, though banks in some countries still need to address elevated nonperforming loan ratios.

Governments across the region are appropriately withdrawing stimulus in 2010 and 2011, and gearing fiscal policy toward further reducing government debt.

Over the next decade, the Maghreb and Mashreq alone will need to create more than 18 million jobs to absorb new labor market entrants and eliminate chronic and high unemployment. This would require an average annual growth rate of more than 6 percent—given the labor market's weak responsiveness to growth—compared with the 4½ percent achieved in the past decade.

The key to addressing these challenges is to raise competitiveness. Governments need to strengthen business environments and enhance the functioning of labor markets by improving educational outcomes and ensuring that wages better reflect market conditions. In addition, at a time when the region's traditional trading partners in Europe are growing more slowly, MENAP oil importers should view fast-growing emerging market economies not only as competitors for export markets, but also as partners for profitable collaboration along global supply chains.

Caucasus and Central Asia: Challenges Beyond the Crisis

Growth is projected to rebound to 4–6 percent in 2010 and 2011 in most CCA countries, but it will take time for disposable income to recover to precrisis levels. The exceptions are Turkmenistan and Uzbekistan, where growth is expected to reach about 10 percent, and, on the other side, the Kyrgyz Republic, which suffered a growth setback due to the political and ethnic conflict in spring 2010.

Most CCA countries are exiting from fiscal stimulus in 2010 or 2011. For the oil and gas importers, this move should help restore policy room to respond to future shocks. Fiscal consolidation—in particular in Armenia and Georgia—is also needed to address high external debt levels and current account deficits, some of which are the result of the policy response to the crisis. Turkmenistan and Uzbekistan continue to provide fiscal stimulus in 2010, despite strong growth (and already high inflation in Uzbekistan).

Monetary policy has limited effectiveness in the CCA economies, as witnessed in 2008–09. This is mainly because of low financial market development and high dollarization. A number of countries are implementing reforms to strengthen the monetary policy tool kit, for example, by developing government securities markets. Countries should also allow for greater exchange rate flexibility to promote dedollarization.

Banking sectors in a number of CCA countries are not yet out of the woods. Nonperforming loans are high or rising in Kazakhstan, the Kyrgyz Republic, and Tajikistan. These countries need to adopt comprehensive and transparent resolution strategies to restore banking sector health. They will also need to enforce stricter lending standards to safeguard asset quality, which, along with macroeconomic stability, will put banking sectors on a sounder footing.

World Economic Outlook[1]

The global economic recovery is proceeding broadly as expected, but downside risks remain elevated. Global activity expanded at an annual rate of about 5 percent during the first half of 2010, and is forecast to expand by about 4½ percent through 2011, with a temporary slowdown during the second half of 2010 and the first half of 2011 (see table).

Economic prospects remain uneven across countries and regions. Output of emerging and developing economies is projected to expand at rates of 6½–7 percent in 2010–11. In advanced economies, growth is projected to average only 2½ percent, implying continued substantial slack. Low consumer confidence and reduced household incomes and wealth are holding consumption down in many advanced economies. Their recoveries will remain fragile for as long as improving business investment does not translate into higher employment growth. However, household spending is going well in many emerging market economies, where investment is propelling job creation. At the same time, financial conditions have improved again—after having suffered a major setback during the first half of 2010 with the European sovereign debt crisis—but underlying sovereign and banking vulnerabilities remain a significant challenge amid concerns about risks to the global recovery.

Overview of the *World Economic Outlook* Projections

(Percent change)

	Year over Year			
			Projections	
	2008	2009	2010	2011
World output	**2.8**	**-0.6**	**4.8**	**4.2**
Advanced economies	0.2	-3.2	2.7	2.2
Of which: United States	0.0	-2.6	2.6	2.3
European Union	0.8	-4.1	1.7	1.7
Emerging and developing economies	6.0	2.5	7.1	6.4
Of which: MENAP	4.6	2.3	4.2	4.8
CCA	6.5	3.6	5.7	5.4
Commonwealth of Independent States	5.4	-3.2	5.3	5.2
Of which: Russia	5.2	-7.9	4.0	4.3
World trade volume (goods and services)	**2.9**	**-11.0**	**11.4**	**7.0**
Commodity prices				
Oil[1]	36.4	-36.3	23.3	3.3
Nonfuel[2]	7.5	-18.7	16.8	-2.0

Sources: IMF, *World Economic Outlook* and *Regional Economic Outlook* (October 2010).

[1]Simple average of prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was $61.78 in 2009; the assumed price based on future markets is $76.20 in 2010 and $78.75 in 2011.

[2]Average (measured in U.S. dollars) based on world commodity export weights.

In general, the pace of recovery is expected to be faster in economies that had smaller output losses during the crisis, stronger precrisis fundamentals, more room for policy maneuver, and deep links with fast-growing trading partners. China's increasingly wide trading network is driving growth prospects in numerous economies, especially commodity exporters. Strong internal dynamics are supporting near-term growth in other emerging economies, too. However, economic prospects are subdued in major advanced economies, where much-needed policy adjustments—in the form of financial sector repair and reform and medium-term fiscal consolidation—have only just begun. This will weigh on growth in emerging economies, raising the need to boost domestic sources of demand. At the same time, capital will continue to flow toward strong emerging and developing economies, induced by relatively good growth prospects and favorable interest rate differentials.

A sustained, healthy recovery rests on two rebalancing acts: internal rebalancing, with a strengthening of private demand in advanced economies, allowing for fiscal consolidation; and external rebalancing, with an increase in net exports in deficit countries, such as the United States, and a decrease in net exports in surplus countries, notably emerging Asia. The two interact in important ways. Increased net exports in advanced economies imply higher demand and higher growth, allowing more room for fiscal consolidation. Strengthened domestic demand helps emerging market economies maintain growth in the face of lower exports.

A number of policies are required to support these rebalancing acts. In advanced economies, the repair and reform of the financial sector needs to accelerate to allow a resumption of healthy credit growth. Also, fiscal adjustment needs to start in earnest in 2011. Specific plans to cut budget deficits in the future are urgently needed now to create room for fiscal policy maneuver. If global growth threatens to slow by appreciably more than expected, countries with fiscal room could postpone some of the planned consolidation. Meanwhile, key emerging economies will need to further develop domestic sources of growth, with the support of greater exchange rate flexibility.

[1] See IMF, *World Economic Outlook* and *Global Financial Stability Report* (both October 2010) for more information.

بلدان MENAP المستوردة للنفط: التكيف مع أنماط النمو العالمي الجديدة

تمكنت بلدان MENAP المستوردة للنفط من تجاوز الركود العالمي بنجاح، وهي تقترب من مستوى النمو الاتجاهي طويل الأجل. ويُنتظر لمعظم البلدان أن تحقق نموا يتراوح بين 3,5 و 5,5% في الفترة 2010-2011. وقد أصيبت باكستان بفيضانات مدمرة خلال يوليو/أغسطس، مما سيتسبب في تأخير النمو هذا العام.

ولا تزال المنطقة قادرة على الصمود أيضا في مواجهة الاضطرابات التي لحقت مؤخرا بالأسواق المالية العالمية. ويواصل ائتمان القطاع الخاص تحسنه، وإن كانت البنوك في بعض البلدان لا تزال بحاجة لمعالجة نسب القروض المتعثرة المرتفعة.

وفي تحرك صائب على مستوى المنطقة، تعمل الحكومات على سحب تدابير التنشيط الاستثنائية خلال عامي 2010 و 2011، وتوجيه سياسة المالية العامة نحو مزيد من التخفيض للدين الحكومي.

وعلى مدار العقد القادم، سوف تحتاج بلدان المغرب والمشرق وحدها أن تنشئ أكثر من 18 مليون وظيفة جديدة لاستيعاب الداخلين الجدد لسوق العمل والتخلص من البطالة المزمنة والمرتفعة. ويتطلب ذلك معدل نمو بمتوسط سنوي يتجاوز 6% ـ نظرا لضعف استجابة سوق العمل لتغيرات النمو ـ مقارنة بمتوسط 4,5% تم تحقيقها في العقد الماضي.

ويمثل تعزيز القدرة التنافسية المفتاح الموصل إلى تجاوز هذه التحديات. فينبغي أن تعمل الحكومات على تحسين مناخ الأعمال وتعزيز كفاءة أسواق العمل عن طريق تحسين محصلة العملية التعليمية والتأكد من توافق الأجور مع ظروف السوق. وإضافة إلى ذلك، ففي المنعطف الراهن الذي يتسم بتباطؤ النمو لدى الشركاء التجاريين التقليديين للمنطقة في أوروبا، ينبغي أن تنظر بلدان MENAP المستوردة للنفط إلى اقتصادات الأسواق الصاعدة سريعة النمو ليس فقط كبلدان منافسة لها، وإنما أيضا كشركاء يمكن الاستفادة من التعاون معهم في كل حلقات سلاسل العرض العالمية.

القوقاز وآسيا الوسطى: تحديات ما بعد الأزمة

يُتوقع أن يحقق النمو ارتدادا إيجابيا في معظم بلدان القوقاز وآسيا الوسطى ليصل إلى 4-6% في عامي 2010 و 2011، لكن الدخل المتاح للإنفاق سوف يستغرق وقتا حتى يعود إلى مستويات ما قبل الأزمة. ويُستثنى من ذلك كل من أوزبكستان وتركمانستان، حيث يتوقع أن يصل النمو إلى 10%، وعلى الجانب الآخر جمهورية قيرغيزستان التي أصيب النمو فيها بنكسة من جراء الصراع السياسي والعرقي في ربيع 2010.

وتعمل معظم بلدان القوقاز وآسيا الوسطى على الخروج من مرحلة التنشيط المالي الاستثنائي في عامي 2010 و 2011. ومن المتوقع أن يساهم هذا التحرك في استعادة قدرة السياسات على مواجهة الصدمات المستقبلية في البلدان المستوردة للنفط والغاز. وينبغي ضبط أوضاع المالية العامة أيضا ـ لا سيما في أرمينيا وجورجيا ـ لمعالجة المستويات المرتفعة التي بلغتها المديونية الخارجية وعجز الحساب الجاري، والتي يرجع جانب منها إلى السياسات المتخذة لمواجهة الأزمة. وتواصل تركمانستان وأوزبكستان تطبيق إجراءات التنشيط المالي رغم النمو القوي (والتضخم المرتفع بالفعل في أوزبكستان).

وتتسم السياسة النقدية بفعاليتها المحدودة في اقتصادات القوقاز وآسيا الوسطى، حسبما ثبت في الفترة 2008-2009. ويرجع ذلك في الأساس إلى ضعف تطور الأسواق المالية وشيوع نظام الدولرة. وهناك إصلاحات جارية في عدد من البلدان لتعزيز أدوات السياسة النقدية، وذلك بإقامة أسواق للأوراق المالية الحكومية على سبيل المثال. وينبغي أيضا إتاحة الفرصة لزيادة مرونة أسعار الصرف حتى يتسنى التحول عن دولرة الاقتصاد.

وهناك قطاعات مصرفية في عدد من بلدان القوقاز وآسيا الوسطى لم تتجاوز المرحلة الحرجة بعد. فالقروض المتعثرة مرتفعة أو متزايدة في كازاخستان وجمهورية قيرغيزستان وطاجيكستان. وتحتاج هذه البلدان إلى اعتماد استراتيجيات شاملة وشفافة لتسوية أوضاعها المصرفية واستعادة صحة القطاع المصرفي. وثمة حاجة أيضا إلى فرض الالتزام بمعايير أكثر صرامة لمنح القروض، حتى تتمكن من حماية جودة الأصول، الأمر الذي يُنتظر أن يتضافر مع استقرار الاقتصاد الكلي ليضع القطاعات المصرفية على مسار أكثر ثباتا.

أضواء على أهم الأحداث

مع مواصلة الاقتصاد العالمي مسيرة التعافي، تحسنت الاحتمالات المتوقعة لمنطقة الشرق الأوسط وآسيا الوسطى.[1] فمن المتوقع لكل بلد في المنطقة تقريبا أن يحقق نموا أسرع في عامي 2010 و 2011 مقارنة بعام 2009. ونظرا لهذا التحسن في النمو، يخطط معظم بلدان المنطقة للخروج من مرحلة التنشيط المالي الاستثنائي بحلول عام 2011، مع الاحتفاظ لبعض الوقت بموقف السياسة النقدية التيسيري. غير أن بعض البلدان قد تحتاج إلى تشديد السياسات الاقتصادية الكلية في وقت أبكر من البلدان الأخرى، نظرا لظهور بوادر للضغوط التضخمية أو لعدم توافر حيز مالي كافٍ.

ومع تعافي المنطقة من "الركود الكبير"، ينبغي أن يكون اهتمام السياسات مركزا على تقوية القطاعات المصرفية ومعالجة التحديات متوسطة الأجل. وفي البلدان المصدرة للنفط في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان (MENAP)، تتصدر جدول الأعمال ضرورة بذل جهود إضافية لتطوير القطاع المالي وتنويع النشاط الاقتصادي. أما في بلدان MENAP المستوردة للنفط، فمن الضروري رفع معدلات النمو وإنشاء وظائف جديدة للسكان الذين تشهد أعدادهم زيادة مستمرة. وفي القوقاز وآسيا الوسطى (CCA)، تتمثل الأولوية في تسوية أوضاع القطاع المصرفي المتعثر، وكذلك تخفيض الدين الخارجي وعجز الحساب الجاري بالنسبة لبعض البلدان.

بلدان MENAP المصدرة للنفط: مهيأة للتركيز على التحديات متوسطة الأجل

من المتوقع حدوث تحسن ملحوظ في أرصدة المالية العامة والأرصدة الخارجية في بلدان MENAP المصدرة للنفط، في استجابة لتصاعد أسعار النفط (من 62 دولارا للبرميل في 2009 إلى 76 دولارا في 2010 و 79 دولارا في 2011) ومستويات الإنتاج. ومن المتوقع أن يزداد الفائض المجمع للحسابات الجارية الخارجية في هذه البلدان ليرتفع من 70 مليار دولار في عام 2009 إلى 120 مليار دولار في 2010 ثم 150 مليار دولار في 2011. ومن المقدر أن يكون التحسن معادلا لنحو 50 مليار دولار أمريكي من عام 2009 إلى 2011 في دول مجلس التعاون الخليجي وحدها.

ومن المرجح لإجمالي الناتج المحلي النفطي - الذي يتوقع أن يعادل 3,5-4,5% في عامي 2010 و 2011 - أن يظل دون مستوياته المسجلة قبل الأزمة. وإضافة إلى ذلك، يحقق الائتمان المحلي تحسنا بطيئا وحسب ولا يزال الطلب الاستثماري محدودا، بالرغم من تحسن أوضاع التمويل الخارجي. ومن ثم، يظل نمو النشاط غير النفطي متواضعا عند مستوى 3,75-4,5%، مما يشير إلى حاجة معظم البلدان إلى الاحتفاظ بدعم السياسات حتى نهاية 2011.

وتهدف معظم البلدان التي يتوافر لديها الحيز المالي الكافي - لا سيما دول مجلس التعاون الخليجي، والجزائر وليبيا - إلى تعزيز دفعة التنشيط المالي في عامي 2010 و 2011. لكن البعض الآخر، ومنها المملكة العربية السعودية، يمر بارتفاع في معدل التضخم، مما يدعو إلى تخفيف الدفعة التنشيطية في عام 2011. ويتوافر لكل من إيران والسودان واليمن حيز مالي أضيق، وقد شرعت هذه البلدان بالفعل في ضبط أوضاع مالياتها العامة. ولا تزال السياسة النقدية محتفظة بطابعها التوسعي في معظم البلدان بغية إنعاش النمو في ائتمان القطاع الخاص، وإن كانت بعض البنوك المركزية قد بدأت توقف العمل بمنهج التيسير الكمي.

وعلى المدى المتوسط، سوف يتعين على البلدان المنتجة للنفط أن تعمل - بدرجات متفاوتة - على ضبط أوضاع المالية العامة للحفاظ على استمرارية استخدام الإيرادات المحققة من قطاع الهيدروكربونات، مع تشجيع التنوع الاقتصادي وإنشاء الوظائف. وتشمل التدابير الداعمة لهذه الأهداف إعادة توجيه الإنفاق نحو الاحتياجات الاجتماعية والإنمائية، وإعادة النظر في الدعم الراهن لأسعار الطاقة، وتنويع قاعدة الإيرادات.

ويتعين توجيه اهتمام مستمر لتطوير النظام المصرفي. فلا تزال نسبة القروض المتعثرة مرتفعة في عدد من البلدان، وثمة حاجة لتعزيز الأطر التنظيمية والعمل الرقابي تمشيا مع الجهود المبذولة عالميا لتخفيف الطابع الدوري في العمل التنظيمي، وتعزيز الاحتياطيات الوقائية من السيولة ورأس المال، ومعالجة قضايا المؤسسات المؤثرة في النظام المالي، وتعزيز الممارسات المتبعة لتسوية أوضاع البنوك المتعثرة. ومن أمثلة التنفيذ الناجح لهذه السياسات الاحترازية الكلية المنهج المتبع في المملكة العربية السعودية لرصد مخصصات خسائر القروض على أساس معاكس للاتجاهات الدورية.

[1] منطقة الشرق الأوسط وآسيا الوسطى تشمل البلدان المصدرة للنفط في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان (MENAP)؛ وبلدان (MENAP) المستوردة للنفط؛ وبلدان القوقاز وآسيا الوسط(CCA).

Principaux points des Perspectives économiques régionales

L'économie mondiale ayant entamé un redressement, les perspectives des pays du Moyen-Orient et d'Asie centrale se sont améliorées[1]. D'après les projections presque tous les pays de la région devraient connaître en 2010 et 2011 une croissance plus forte qu'en 2009. Compte tenu de cette amélioration, la plupart des pays comptent cesser leur politique de relance budgétaire en 2011, tout en maintenant une politique monétaire accommodante pendant quelque temps. Certains pays pourraient toutefois être contraints de durcir leur politique macroéconomique plus tôt, en raison de signes de tensions inflationnistes ou d'un manque de marge de manœuvre budgétaire.

À mesure que la région sort de la Grande Récession, l'attention doit être centrée sur le renforcement des secteurs bancaires et la gestion des défis à moyen terme. Dans les pays exportateurs de pétrole de la région MOANAP, les objectifs prioritaires consistent à poursuivre les efforts de développement du secteur financier et de diversification de l'économie. Dans les pays importateurs de pétrole de la région MOANAP, il sera essentiel d'accélérer le rythme de la croissance et de créer des emplois pour des populations en expansion. Dans la région CAC, les priorités sont de résoudre les problèmes du secteur bancaire et, dans certains pays, de réduire la dette extérieure et les déficits courants.

Pays exportateurs de pétrole de la MOANAP : bien positionnés pour se centrer sur les défis à moyen terme

Les soldes budgétaires et extérieurs des pays exportateurs de pétrole de la MOANAP vont s'améliorer sensiblement sous l'effet de la hausse des cours du pétrole (de 62 dollars EU le baril en 2009 à 76 dollars EU en 2010, puis 79 dollars EU en 2011) et des niveaux de la production pétrolière. L'excédent courant combiné de ces pays devrait passer à 120 milliards de dollars EU en 2010 et 150 milliards de dollars EU en 2011, contre 70 milliards de dollars EU en 2009. Dans les pays du Conseil de coopération du Golfe (CCG) à eux seuls nous tablons sur une progression d'environ 50 milliards de dollars EU en 2011 par rapport à 2009.

La croissance du PIB pétrolier —prévue à 3½–4½ % en 2010 et 2011 — devrait rester en-deçà de son niveau d'avant la crise. Par ailleurs, bien que les conditions de financement extérieur se soient améliorées, le crédit intérieur ne se redresse que lentement et la demande d'investissements est morose. De ce fait, la croissance de l'activité non pétrolière demeure terne à un niveau de 3¾–4½ %, ce qui signifie qu'il faudrait poursuivre une politique d'accompagnement jusqu'à la fin de 2011 dans la plupart des pays.

La plupart des pays qui disposent d'une marge de manœuvre budgétaire — CCG, Algérie et Lybie principalement — comptent poursuivre la relance budgétaire en 2010 et 2011. Mais certains, dont l'Arabie saoudite, voient l'inflation s'accélérer, ce qui pourrait obliger à tempérer la relance en 2011. L'Iran, le Soudan et le Yémen ont moins de marge de manœuvre budgétaire et ont déjà entrepris un rééquilibrage de leurs finances publiques. Dans la majorité des pays, la politique monétaire demeure expansionniste, afin de raviver la croissance du crédit au secteur privé, encore que certaines banques centrales aient commencé à mettre fin à leur politique d'assouplissement quantitatif.

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[1] La région Moyen-Orient et Asie centrale regroupe les pays exportateurs de pétrole de la région MOANAP (Moyen-Orient, Afrique du Nord, Afghanistan et Pakistan), les pays importateurs de pétrole de la région MOANAP et les pays du Caucase et d'Asie centrale (CAC).

À moyen terme, tous les pays exportateurs de pétrole devront — à des degrés variables — rééquilibrer les finances publiques pour préserver l'utilisation durable des rentrées pétrolières, tout en encouragent la diversification de l'économie et la création d'emplois. Les mesures allant dans ce sens consistent notamment à réorienter les dépenses en faveur des impératifs sociaux et des besoins de développement, à revoir les subventions à l'énergie et à élargir l'assiette des revenus.

Il convient de poursuivre l'effort de développement des systèmes bancaires. Le niveau des créances improductives reste élevé dans un certain nombre de pays. Il importe de renforcer la réglementation et la supervision dans le droit fil des efforts de la communauté mondiale pour réduire la cyclicalité réglementaire, renforcer la liquidité et les volants de fonds propres des banques, faire face aux problèmes des institutions d'importance systémique et améliorer les pratiques de résolution bancaire. Le provisionnement contracyclique mis en place par l'Arabie saoudite illustre comment ce genre de politiques macroprudentielles peut être appliqué avec succès.

Pays importateurs de pétrole de la MOANAP : ajustement à la nouvelle géométrie de la croissance mondiale

Les pays importateurs de pétrole de la MOANAP ont traversé la récession mondiale dans de bonnes conditions et sont proches de leurs taux de croissance tendancielle à long terme. La plupart d'entre eux devraient connaître des taux de croissance de 3½–5½ % en 2010–11. Le Pakistan a été éprouvé par les inondations dévastatrices de juillet / août, ce qui amputera sa croissance cette année.

La région a aussi continué à bien résister aux récentes turbulences des marchés financiers mondiaux. Le crédit au secteur privé est en augmentation, bien que les banques de certains pays continuent à accuser des ratios élevés de créances improductives.

Les gouvernements de la région ont décidé à juste titre de mettre fin à la relance budgétaire en 2010 et 2011, et concentrent leur politique budgétaire sur la réduction de la dette publique.

Au cours de la prochaine décennie, le Maghreb et le Mashreq à eux seuls vont devoir créer plus de 18 millions d'emplois pour absorber les nouveaux-venus sur le marché du travail et mettre fin à une situation de chômage chronique et élevé. Il faudrait pour cela un taux de croissance annuel moyen supérieur à 6 % — compte tenu de la faible réactivité du marché du travail à la croissance — contre 4½ % au cours de la décennie écoulée.

Pour relever ce défi, il est essentiel d'accroître la compétitivité. Il faut que les autorités s'emploient à améliorer le climat des affaires et le fonctionnement des marchés du travail en faisant en sorte que les systèmes éducatifs soient plus performants et que les salaires reflètent mieux la situation du marché. Par ailleurs, vu la croissance plus lente des partenaires commerciaux traditionnels en Europe, les pays importateurs de pétrole de la région MOANAP devraient considérer les pays émergents dynamiques non pas seulement comme des concurrents pour les débouchés à l'exportation, mais aussi comme des partenaires pour une collaboration fructueuse dans les chaînes d'approvisionnement mondiales.

Pays du Caucase et d'Asie centrale : les défis au-delà de la crise

Les projections laissent entrevoir un rebond de la croissance de 4–6 % en 2010 et 2011 dans la plupart des pays de la région CAC, mais il faudra un certain temps avant que le revenu disponible revienne à ses niveaux d'avant la crise. Les exceptions sont l'Ouzbékistan et le Turkménistan, où l'on s'attend à un taux de croissance d'environ 10 %, et, d'autre part, la République kirghize, dont la croissance a été très éprouvée par le conflit politique et ethnique du printemps 2010.

La plupart des pays de la région CAC entendent mettre fin à la politique de relance budgétaire en 2010 ou 2011. Dans le cas des pays importateurs de pétrole ou de gaz, cela devrait permettre de récupérer une certaine marge de manœuvre pour faire face aux chocs futurs. Le rééquilibrage des finances publiques — en particulier en Arménie et en Géorgie — est par ailleurs indispensable pour réduire le niveau élevé de la dette public et des déficits courants, qui résultent dans certains cas des mesures prises pour faire face à la crise. Le Turkménistan et l'Ouzbékistan ont opté pour la poursuite de la relance, bien que la croissance soit forte (et l'inflation déjà élevée en Ouzbékistan).

La politique monétaire n'a qu'une efficacité limitée dans les pays de la CAC, comme on a pu le constater en 2008–09. Cela s'explique principalement par le faible niveau de développement des marchés financiers et par la forte dollarisation. Un certain nombre de pays mettent en œuvre des réformes afin d'améliorer leur panoplie d'instruments de politique monétaire, par exemple en mettant en place des marchés de titres publics. Il faudrait par ailleurs que les pays donnent plus de souplesse à leur régime de change afin d'encourager la dédollarisation.

Les secteurs bancaires d'un certain nombre de pays de la région CAC ne sont pas encore sortis d'affaire. Le niveau de créances improductives est élevé ou croissant au Kazakhstan, en République kirghize et au Tadjikistan. Ces pays vont devoir adopter des stratégies exhaustives et transparentes de résolution des faillites pour remettre sur pied le secteur bancaire. Il leur faudra aussi faire appliquer des normes de prêt plus strictes pour préserver la qualité des actifs, ce qui, parallèlement à la stabilité macroéconomique, donnera aux secteurs bancaires une assise plus solide.

Основные положения

С оживлением роста глобальной экономики улучшились перспективы стан региона Ближнего Востока и Центральной Азии[1]. В 2010 и 2011 годах почти во всех странах региона прогнозируется более высокий экономический рост, чем в 2009 году. С учетом данного повышения темпов роста большинство стран региона планирует отменить бюджетное стимулирование к 2011 году, сохранив в течение некоторого времени адаптивную денежно-кредитную политику. Однако некоторым странам может потребоваться ужесточить свою макроэкономическую политику раньше ввиду признаков инфляционного давления или отсутствия бюджетных возможностей.

По мере восстановления стран региона от Великой рецессии основное внимание в рамках экономической политики должно быть уделено укреплению банковского сектора и решению среднесрочных задач. В странах-экспортерах нефти БВСАП основными приоритетами являются дальнейшее развитие финансового сектора и экономическая диверсификация. В странах-импортерах нефти БВСАП главная задача состоит в повышении темпов экономического роста и создании рабочих мест. В странах КЦА приоритет заключается в преодолении проблем в банковском секторе, а также в некоторых странах в сокращении внешнего долга и уменьшении дефицита по счету текущих операций.

Страны-экспортеры нефти БВСАП: все возможности для сосредоточения усилий на решении среднесрочных задач

Сальдо бюджета и баланс внешних операций стран-экспортеров нефти БВСАП существенно улучшится благодаря повышению цен на нефть (с 62 долл. США за баррель в 2009 году до 76 долл. США в 2010 году и 79 долл. США в 2011 году) и увеличению объемов добычи. Ожидается, что совокупный профицит счета внешних текущих операций этих стран возрастет до 120 млрд долл. США в 2010 году и 150 млрд долл. США в 2011 году против 70 млрд долл. США в 2009 году. Согласно оценкам, только в странах-членах Совета по сотрудничеству стран Персидского залива (ССЗ) данное увеличение составит 50 млрд долл. США.

Рост ВВП за счет нефтяного сектора, прогнозируемый в размере 3½–4½ процента в 2010 и 2011 годах, вероятно, будет ниже докризисного уровня. Кроме того, хотя условия внешнего финансирования улучшились, внутреннее кредитование растет медленными темпами, а спрос на инвестиции является низким. Расширение активности в ненефтяных секторах остается умеренным, на уровне 3¾–4½ процента, что указывает на необходимость сохранения поддержки мерами политики в большинстве стран по 2011 год включительно.

Большинство стран, имеющих соответствующие бюджетные возможности, в основном страны ССЗ, Алжир и Ливия, планирует осуществить дополнительное бюджетное стимулирование в 2010 и 2011 годах. Однако некоторые из них, включая Саудовскую Аравию, стакиваются с усилением инфляции, что может потребовать уменьшения стимула в 2011 году. Йемен, Иран и Судан обладают меньшими бюджетными возможностями и уже приступили к фискальной консолидации. В большинстве стран по-прежнему проводится экспансивная денежно-кредитная политика для оживления роста

[1] Регион Ближнего Востока и Центральной Азии включает страны-экспортеры нефти Ближнего востока и Северной Африки, Афганистан и Пакистан (БВСАП); страны-импортеры нефти БВСАП; а также страны Кавказа и Центральной Азии (КЦА).

кредитования частного сектора, хотя некоторые центральные банки начинают сокращать свою количественную адаптацию.

В среднесрочной перспективе всем странам-производителям нефти, хотя и в разной степени, потребуется провести фискальную консолидацию, с тем чтобы сохранить устойчивое использование доходов от углеводородного сектора при обеспечении диверсификации и создания рабочих мест. Отвечающие этим целям меры включают в себя переориентацию расходов на социальные нужды и задачи развития, пересмотр субсидирования энергетики и диверсификацию базы доходов.

Необходимо продолжать уделять внимание развитию банковской системы. Необслуживаемые кредиты остаются на повышенном уровне в ряде стран. Необходимо укреплять системы регулирования и надзора в соответствии с глобальными усилиями, направленными на уменьшение цикличности регулирования, усиление ликвидности и запасов каптал, преодоление проблем в системно важных учреждениях и улучшение практики санации банков. Примером успешного проведения такой макропруденциальной политики служит антициклическое формирование резервов в Саудовской Аравии.

Страны-импортеры нефти БВСАП: адаптация к новой модели глобального экономического роста

Страны-импортеры нефти БВСАП успешно перенесли глобальную рецессию и близки к своему долгосрочному тренду экономического роста. В большинстве стран темпы роста в 2010–2011 годах должны составить 3½–5½ процента. В Пакистане произошло сильное наводнение в июле/августе, что скажется на экономическом росте в этом году.

Страны региона также сохранили устойчивость перед лицом недавних потрясений на глобальных финансовых рынках. Кредитование частного сектора расширяется, хотя банкам в некоторых странах еще необходимо решить проблему высокого коэффициента необслуживаемых кредитов.

В 2010 и 2011 годах правительства стран региона совершенно обоснованно сокращают стимулирование и ориентируют налогово-бюджетную политику на дальнейшее уменьшение государственного долга.

В течение следующего десятилетия только странам Магриба и Машрека потребуется создать свыше 18 миллионов рабочих мест для трудоустройства новой рабочей силы и преодоления хронически высокой безработицы. Для этого среднегодовые темпы роста должны будут превышать 6 процентов — с учетом слабой реакции рынка труда на экономический рост — против 4½ процента в прошлом десятилетии.

Ключом к решению этих задач служит повышение конкурентоспособности. Правительствам необходимо улучшить деловую среду и функционирование рынков труда путем повышения качества образования и обеспечения более полного отражения рыночных условий в уровне заработной платы. Кроме того, в период более медленного экономического роста в странах Европы, являющихся традиционными торговыми партнерами региона, странам-импортерам нефти БВСАП следует рассматривать быстро растущие страны с формирующимся рынком не только в качестве конкурентов за экспортные рынки, но и в качестве партнеров по прибыльному сотрудничеству в рамках глобальных цепочек поставок.

Страны Кавказа и Центральной Азии: задачи на период после кризиса

Согласно прогнозам, в большинстве стран КЦА экономический рост в 2010 и 2011 годах должен оживиться до уровня 4–6 процентов, однако потребуется время для того, чтобы располагаемый доход восстановился до докризисного уровня. Исключением являются Узбекистан и Туркменистан, в которых рост, как ожидается, достигнет 10 процентов, и, с другой стороны, Кыргызская Республика, в которой произошло падение роста из-за политического и межэтнического конфликта весной 2010 года.

Большинство стран КЦА будет отменять бюджетное стимулирование в 2010 или 2011 году. В случае стран-импортеров нефти и газа этот шаг должен помочь восстановить бюджетные возможности для принятия мер при возникновении новых шоков. Фискальная консолидация, в частности в Армении и Грузии, также необходима для преодоления высокого уровня внешнего долга и дефицита по счету текущих операций, отчасти сложившегося в результате принятия мер ответной политики на кризис. Туркменистан и Узбекистан продолжают проводить бюджетное стимулирование, несмотря на высокий экономический рост (и уже высокую инфляцию в Узбекистане).

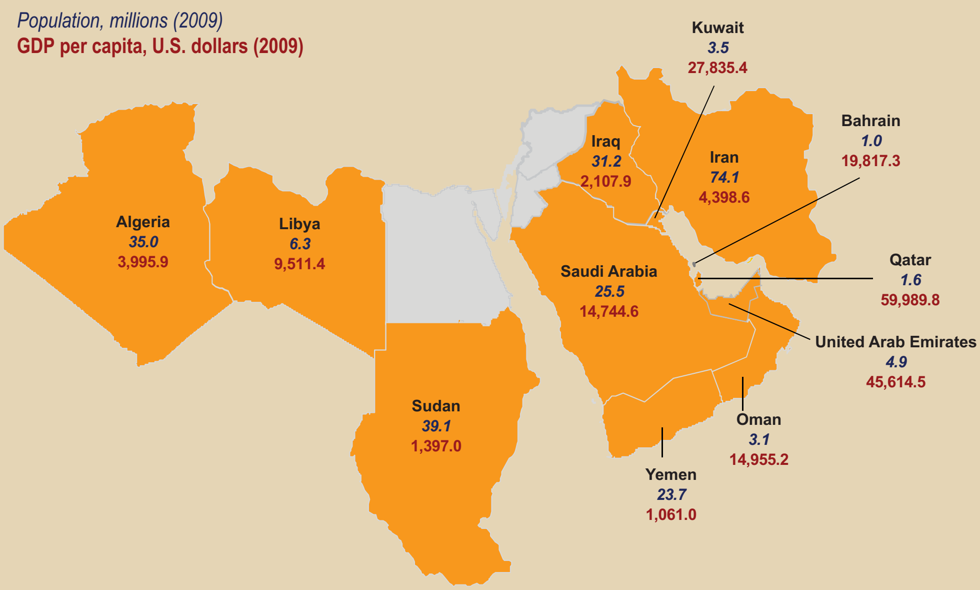
Как показали 2008–2009 годы, денежно-кредитная политика имеет ограниченную эффективность в странах КЦА. Это в основном объясняется низким развитием финансовых рынков и высокой долларизацией. Ряд стран проводит реформы для укрепления инструментария денежно-кредитной политики, например, путем развития рынков государственных ценных бумаг. Страны должны также допустить большую гибкость обменных курсов для содействия уменьшению долларизации.

Ситуация в банковском секторе ряда стран КЦА еще не полностью нормализовалась. Необслуживаемые кредиты являются высокими или растут в Казахстане, Кыргызской Республике и Таджикистане. Этим странам необходимо принять комплексные и прозрачные стратегии санации для восстановления здоровья банковского сектора. Они должны также обеспечить соблюдение более строгих нормативов кредитования для защиты качества активов, что, наряду с макроэкономической стабильностью, повысит надежность банковского сектора.

1. MENAP Oil Exporters: Well Placed to Focus on Medium-Term Challenges[1]

At a Glance

With the recovery in oil prices, MENAP oil exporters will experience visible improvements in fiscal and external balances during 2010–11. Non-oil activity is set to pick up, although more gradually, with lackluster private demand offset by supportive policies. In many countries, accommodative fiscal and monetary policies will continue to be appropriate over the coming year, but with a closer eye on emerging inflationary pressures. Beyond 2011, fiscal consolidation should be under way in virtually all countries to enable them to confront the medium-term challenges of ensuring a sustainable use of hydrocarbon revenues and supporting private-sector development. Financial sector priorities should focus on reducing cyclicality in bank lending, strengthening liquidity standards, addressing systemically important institutions, and improving bank resolution frameworks, while creating conditions for more forceful and effective supervision. Specific strategies will depend on each country's stage of banking development and the degree to which it has been affected by the global financial crisis.



Sources: IMF, Regional Economic Outlook database; and Microsoft Map Land.
Note: The country names and borders on this map do not necessarily reflect the IMF's official position.

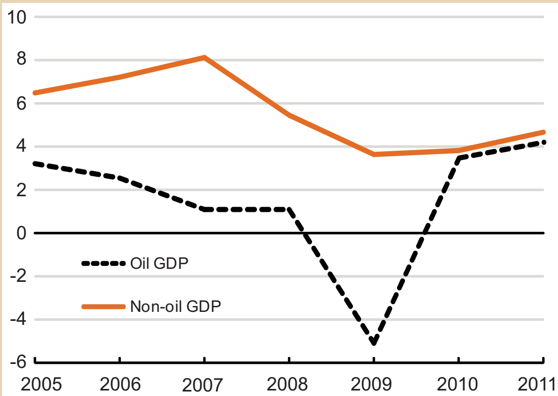
The Postcrisis Recovery Continues

For the MENAP oil exporters as a whole, the pace of economic activity is set to continue to recover. On the back of a rebound in worldwide demand, crude oil production is projected to grow to 25 million barrels per day (bpd) in 2010 and 26 million bpd in 2011. As a result, oil GDP will register growth rates of between 3½ percent and 4¼ percent in 2010 and 2011. However, these growth rates are still below precrisis levels, and crude production will still fall short of its 2008 level.

Non-oil activity, while significantly cushioned on the downside in 2009 by countercyclical fiscal policy in some countries, is projected to pick up only gradually,

[1] Prepared by Adolfo Barajas with input from country teams.

Figure 1.1
Oil Sector Leads the Way in Growth Recovery
(Real GDP growth; percent)



Sources: National authorities; and IMF staff estimates.

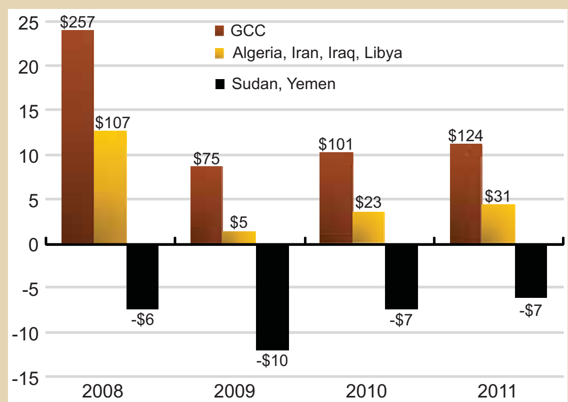
Figure 1.2
Exports Outpace Imports
(Billions of U.S. dollars)

Source: IMF, *Direction of Trade Statistics.*

by 1 percentage point between 2009 and 2011 (Figure 1.1). In most countries, non-oil sector growth will continue to fall short of its long-term potential—given the uncertain outlook for private investment and financing conditions, both domestic and external—but will continue to be buoyed by supportive fiscal policy.

The increase in oil prices, by 23 percent in 2010 and more than 3 percent in 2011,[2] will lead to a marked turnaround in external balances. There are signs of improvement as of the second quarter of 2010, with monthly exports having rebounded to levels almost 40 percent above their lows of February 2009, and greatly outpacing imports, which have remained essentially flat over the same period (Figure 1.2). For the full year, exports are projected to increase by 19 percent in 2010, followed by a more moderate 10 percent increase in 2011, by which time they will have surpassed the US$1 trillion mark. Consequently, the external current account surplus is expected to increase from US$70 billion in 2009 to US$120 billion in 2010 and US$150 billion in 2011. In the Gulf Cooperation Council (GCC), the rebound will be considerable as well, by about US$50 billion between 2009 and 2011 (Figure 1.3). Nonetheless,

Figure 1.3
Current Account Balances Improve Across the Board
(Percent of GDP and billions of U.S. dollars)



Sources: National authorities; and IMF staff estimates.

projected outturns in 2010 and 2011 remain highly sensitive to oil price developments (Box 1.1).

External financing conditions for borrowers in the region have improved noticeably, and have barely been affected by regional or global shocks so far. Since the summer of 2008, credit default swap (CDS) spreads for GCC sovereigns have generally fallen—by 50–180 basis points (Figure 1.4). The exception is Dubai, where spreads remain elevated following the November 2009 Dubai World standstill announcement, despite restructuring agreements with most creditors

[2] Based on futures markets, the IMF *World Economic Outlook* (October 2010) projects average oil prices per barrel in 2010 and 2011 at US$76.20 and US$78.75, respectively.

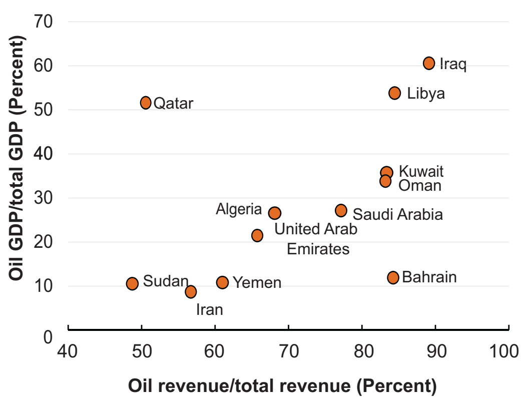
Box 1.1

Dependence on Oil: Cross-Country Comparison

Although MENAP oil exporters have largely overcome the most severe effects of the global financial crisis, they continue to face significant vulnerabilities, in large part as a consequence of their continued dependence on oil. The share of oil-related activity in total GDP varies widely among this group of countries, ranging from less than 10 percent in Iran and Yemen to about 30 percent for four out of six GCC countries—Kuwait, Oman, Saudi Arabia, and the United Arab Emirates—to more than 60 percent in Iraq. However, all countries derive at least half of their fiscal revenues from hydrocarbons (Figure 1).

Figure 1

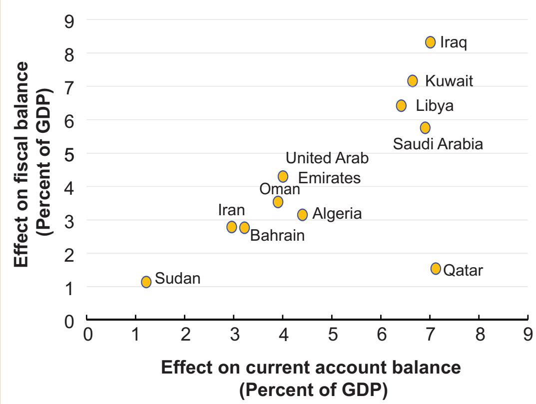
Fiscal and Economic Activity: Dependence on Oil, 2010



Sources: National authorities; and IMF staff estimates.

Figure 2

Impact of a US$10 per Barrel Increase in Oil Prices, 2010



Sources: National authorities; and IMF staff estimates.

As a result, these countries remain quite vulnerable to changes in the price of oil. It is estimated that a US$10 per barrel swing in the average price of oil over a year[1] could affect their aggregate external current and fiscal accounts by US$88 billion and US$75 billion, respectively. For the GCC alone, the corresponding numbers are US$59 billion and US$48 billion. Measured as a percentage of GDP, these impacts can be quite substantial (Figure 2).

[1] Based on historical behavior over 1960–2009, a US$10 per barrel swing in the price has a 66 percent probability of occurring in any given year.

(Box 1.2). The financial market tensions of early 2010 that originated from the European sovereign debt crisis had little impact on the region. However, to the extent that they rely on international credit markets, regional banks and firms remain vulnerable to changes in global conditions.

Regional stock markets have continued to recover from their lows reached during the first quarter of 2009 (Figure 1.5). However, the post-Lehman recovery remains incomplete: while the S&P 500 has climbed back to 88 percent of its level as of August 2008, recovery in GCC markets has ranged from 47 percent (Kuwait) to 72 percent (Qatar and Saudi Arabia). This incomplete recovery largely reflects the evolution of oil prices and capital inflows, both of which suffered sharp declines in 2009, and are expected to recover only partially by the end of 2010. A decoupling of other GCC markets from Dubai appears to have also taken place, indicating that market participants have become more discriminating, even within the GCC. Indeed, the correlations of CDS spreads and stock market

Box 1.2

Update on Dubai World's Debt Restructuring

On September 9, 2010, Dubai World Holding (DW) and its creditors agreed on the terms of restructuring of US$24.9 billion of liabilities. The agreement came nine months after DW's request to stay its payments—as well as those of its property subsidiaries (such as Nakheel)—on bond and bank debt.

The agreement involves actions from both banks and the government of Dubai:

- *Banks* accepted to take a haircut on their loans of US$14.4 billion to DW, by extending maturities to 2015 and 2018 at below market rates. Nakheel's loans would be rolled over at market rates.
- In exchange, the government of Dubai will inject US$9½ billion new cash (into DW and Nakheel) and convert this, and its preexisting loans of US$10 billion, into equity.
- *Bondholders* are paid in full (US$1.8 billion) and on time.
- Trade creditors will have their arrears progressively reimbursed by Nakheel.

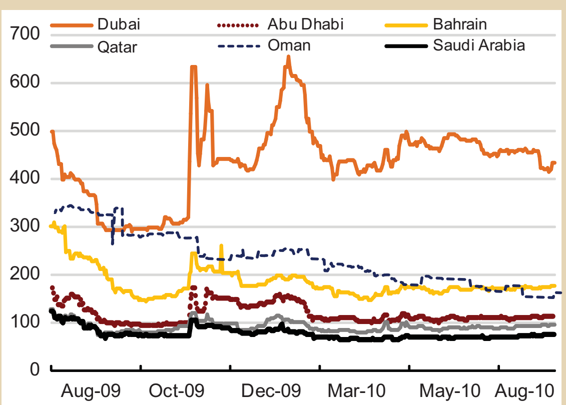
The government of Dubai's cash injection will allow Nakheel to complete ongoing projects. The orderly sale of these properties until 2018 is projected to generate enough cash to repay the restructured loans at maturity.

The author is Gabriel Sensenbrenner. See also IMF Middle East and Central Asia Department, 2010, *Impact of the Global Financial Crisis on the Gulf Cooperation Council Countries and Challenges Ahead: An Update*, www.imf.org/external/pubs/ft/dp/2010/dp1002.pdf.

Figure 1.4

More Favorable Financing Conditions, for the Most Part

(Credit default swap spreads; basis points: 08/01/09–09/14/10)



Sources: Bloomberg; and Markit.

indices between other GCC markets and Dubai have been lower since the Dubai World event.[3]

Inflation has generally remained subdued among the MENAP oil exporters, with most countries registering low, single-digit rates. However, performance varies considerably across countries (Box 1.3), and conditions could easily change, as the recovery in international commodity prices[4] or the lagged effect of nominal depreciations feed into domestic prices, or the recovery in domestic demand begins to fuel inflationary pressures. More recently, inflation has picked up in some countries (Figure 1.6). In Saudi Arabia, inflation has risen continuously since October 2009, moving from 3.5 percent to 6.1 percent in August 2010. In Yemen, inflation has accelerated from a low of 1 percent in early 2009, more recently nudging into double digits, while in Sudan it has increased steadily from just below 9 percent in August 2009 to more than 15 percent in June 2010. In Iran, inflation followed a strong

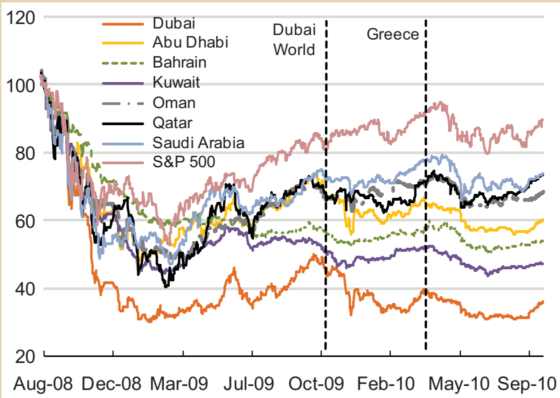
[3] See IMF, *Regional Economic Outlook* (May 2010), www.imf.org/external/pubs/ft/reo/2010/mcd/eng/mreo0510.htm.

[4] The June 2010 *World Economic Outlook* price indices for nonfuel commodities and for food and beverages, respectively, are 27 percent and 14 percent higher than their December 2008 levels.

Figure 1.5

Recuperating Stock Markets

(Index; Aug 31, 2008 = 100; Aug 31, 2008–Sep 14, 2010)

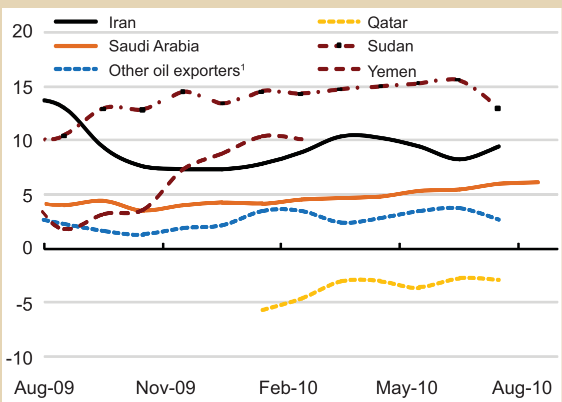


Source: Bloomberg.

Figure 1.6

Some Signs of Inflationary Pressures

(Consumer price index, average; year-on-year growth)



Sources: National authorities.
[1]Algeria, Bahrain, Iraq, Kuwait, Libya, and Oman.

downward trend throughout 2009, declining from 30 percent in late 2008 to 7 percent at end-2009, but has begun to inch up, reaching 10 percent during the first quarter of 2010.

More recently, disruptions in the international wheat market have highlighted oil exporters' vulnerability to variations in non-oil commodity prices. The resulting 85 percent spike in wheat prices from early June to early August 2010 is expected to have a direct impact of about US$1 billion on the import bill of MENAP oil exporters as a whole. Particularly large balance of payments effects, measured as a percentage of 2010 GDP, are foreseen for two countries: Yemen (0.5 percent) and Algeria (0.4 percent). There, the potential inflationary impact could be sizable, given the 11 percent weight of wheat in these countries' consumer price index basket.

Less Pressure on Government Budgets

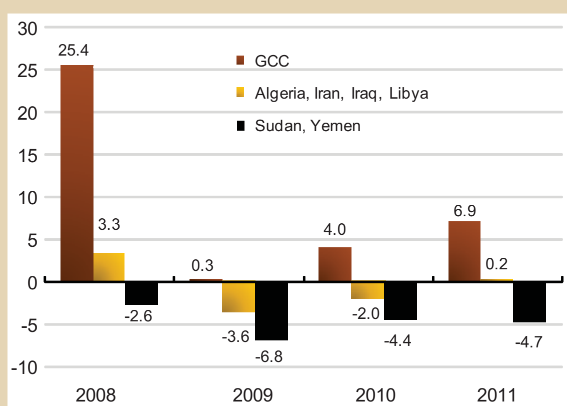
The fiscal stance for most MENAP oil exporters during 2010–11 is broadly appropriate. Where fiscal space is available (particularly in the GCC and Algeria), and signs of either self-sustaining private-sector activity or overheating are absent, fiscal policy should remain expansionary. Beyond 2011, most countries should turn to consolidation as they tackle critical medium-term challenges. Where fiscal space is lacking (particularly in Iran, Sudan, and Yemen), consolidation is already under way.

With the recovery in oil prices and non-oil activity, fiscal balances are expected to improve across the MENAP oil exporters (Figure 1.7). For the GCC, the improvement is particularly large, by almost 7 percentage points of GDP between 2009 and 2011. However, this overall trend conceals a significant degree of heterogeneity in fiscal stances as measured by

Figure 1.7

Better Fiscal Balances

(Percent of GDP)



Sources: National authorities; and IMF staff estimates.

Box 1.3

Recent Inflation Dynamics in GCC Countries

Inflation levels and inflation differentials across the GCC have been largely driven by the oil cycle, although other factors, such as international food prices and capital inflows, have also been at play.

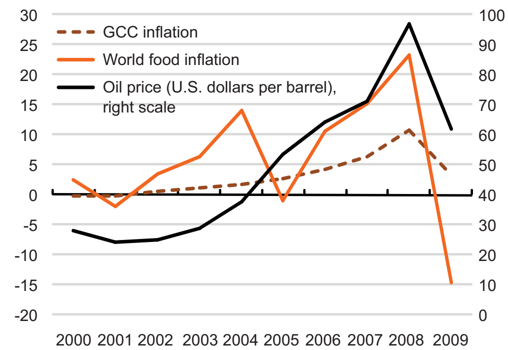
Since 2003, two major trends have characterized inflation in the GCC. First, headline inflation crept up in the GCC from zero to a peak of more than 10 percent in 2008, then fell again—to 3.2 percent in 2009 (Figure 1). Second, inflation differentials increased—by about 50 percent on average —reaching more than 11 percentage points between Bahrain and Qatar, and Saudi Arabia and Qatar in 2005. This may be surprising, given the increasing integration of these economies, the peg to a common currency (the U.S. dollar), and flexible labor markets. Minimizing inflation differentials across the GCC is a key convergence criterion in the planned monetary union.

Level of inflation. The increase in inflation in the GCC began with the 2003 upsurge in oil prices, which allowed governments to embark on large-scale infrastructure development and social programs (Figure 2). This, in turn, pushed up the price of housing and other nontradables, and contributed to an overheating of these economies. Large capital flows into some GCC countries, and their subsequent reversals during the initial stages of the global crisis, also contributed to inflation dynamics (Figure 3). Moreover, imports of food and other commodities contributed to inflationary pressures, given that food accounts for a large share in the consumer price index (CPI).

Inflation differentials. Inflation in Qatar and the United Arab Emirates increased more rapidly during the oil boom than in other GCC countries before dropping more sharply during the global crisis. This largely reflects the more pronounced boom-bust cycle in these two countries. For example, growth of credit to the private sector decelerated from 93 percent in Qatar and 79 percent in the United Arab Emirates during 2007–08:H1 to 7.6 percent and 0.7 percent, respectively, in 2009. In contrast, Bahrain's inflation remained the most stable during the recent oil boom, due in part to the country's low share of oil in GDP, which—at 12 percent—is the lowest in the GCC. Structural factors have also contributed to inflation differentials within the GCC: different weights for food and rents, which are the most important components of the CPI; supply bottlenecks in the housing market that are more binding in some countries than in others; and differences in government subsidies.

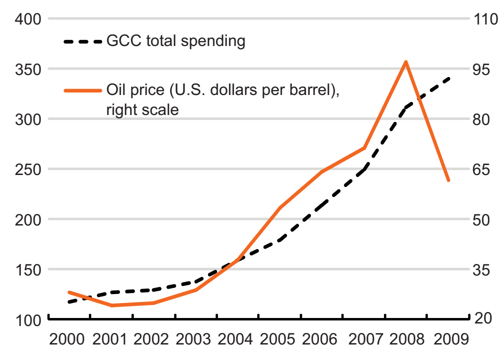
The authors are Kamiar Mohaddes, Abdelhak Senhadji, and Oral Williams.

Figure 1
Inflation and Oil Price
(Percent)



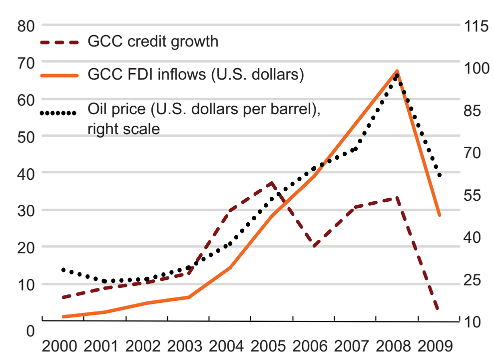
Sources: National authorities; and IMF staff estimates.

Figure 2
Expenditures and Oil Price
(Billions of U.S. dollars)



Sources: National authorities; and IMF staff estimates.

Figure 3
Credit Growth and Oil Price
(Percent)

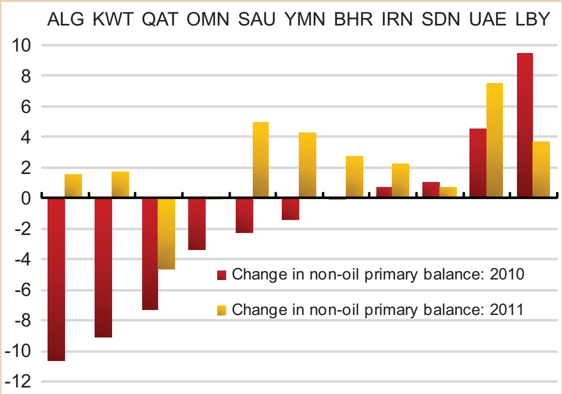


Sources: National authorities; and IMF staff estimates.

Figure 1.8

Fiscal Stances Vary Widely

(Percent of non-oil GDP)



Sources: National authorities; and IMF staff calculations.

the non-oil primary fiscal balance—that is, excluding oil revenue, net interest income, and nondiscretionary spending[5] (Figure 1.8).

One group of countries—several GCC countries and Algeria—has had ample fiscal space owing to low debt levels and large buffers built up during the precrisis years. This has afforded them the opportunity to implement stimulus in 2009–11:

- Several GCC countries—Kuwait, Oman, Qatar, and Saudi Arabia—are increasing their development and capital expenditures substantially. In Saudi Arabia, fiscal stimulus continues in 2010—total spending and capital outlays are projected to increase by 11 percent and more than 22 percent, respectively—but will begin to be unwound in 2011, with a 5 percentage point reduction in the non-oil primary deficit.
- On top of a multi-year Public Investment Program that had already established high levels of capital spending, Algeria is introducing a large civil service wage increase in 2010, which is projected to raise the public wage bill by more than 30 percent. As a result, the non-oil primary fiscal deficit is projected to widen by close to 10 percentage points of non-oil GDP in 2010 and narrow only moderately in 2011.

At the other end of the spectrum, Iran, Sudan, and Yemen have little fiscal space and are narrowing their deficits in 2010–11, following a first round of tightening in 2009:

- In Iran, successive years of fiscal consolidation—via a decline in capital spending and improvements in revenue administration—will leave the 2011 non-oil primary balance 7½ percentage points higher, in terms of non-oil GDP, than in 2008.
- Sudan is tightening its fiscal stance by 1 percentage point of non-oil GDP in 2010, through an almost equal application of measures to enhance revenue administration and cut current expenditure.
- In Yemen, under a new IMF-supported program, the implementation of a general sales tax, along with measures aimed at reducing oil subsidies and widening the base for trade and income taxes, will account for an adjustment of more than 2 percentage points of non-oil GDP in 2010, at the same time that social and capital spending will rise.

Short-term fiscal challenges are being confronted in two other cases:

- With more limited financing options, Iraq continues to address its reconstruction needs within the framework of an IMF-supported program.
- Dubai faces short-term challenges, while the government of Abu Dhabi has substantial fiscal buffers. For the United Arab Emirates as a whole, the significant stimulus in 2009 largely reflected transfers to Dubai government-related enterprises. In the absence of additional financing for Dubai from Abu Dhabi, the United Arab Emirates' non-oil primary deficit is projected to decline by about 12 percentage points of non-oil GDP over 2010–11.

[5] For example, in Kuwait, transfers to the Future Generations Fund and the recapitalization of social security are also excluded.

Accommodative Monetary Policy May Soon Have to Shift Gears

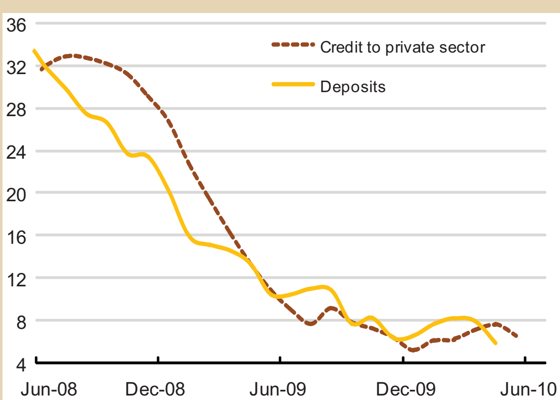
The accommodative monetary policy stance that has been in place since 2009 is largely justified to the extent that, in most countries, private-sector credit has not noticeably rebounded and inflation remains subdued. For the group of MENAP oil exporters, annual credit growth ticked upward to 6.7 percent as of May 2010, from a low of 4.1 at end-2009, but was still well below the 32 percent growth achieved in the fall of 2008 (Figure 1.9). Furthermore, for several countries (Qatar, Saudi Arabia, and the United Arab Emirates), credit growth has yet to pick up.

The challenge for monetary policy is to balance the need to support a revival of credit growth while mitigating a potential resurgence of inflation arising from a lagged effect of rising international food prices and from the expansion of domestic demand. Although most oil-exporting countries in the region have limited options for conducting countercyclical monetary policy via domestic interest rates—given their pegged exchange rate regimes and open capital accounts (the GCC)—some have been able to cushion the slowdown in private-sector credit through quantitative easing, lowering reserve requirements, and providing liquidity and capital injections to the banking sector.

Figure 1.9

Credit and Deposits[1]

(PPPGDP weighted for aggregation; year-on-year growth, percent)



Sources: National authorities; IMF, *International Financial Statistics*.
[1]Excludes Iran and Iraq due to data limitations.

As the recovery takes hold and banks become more willing and able to lend, these measures will need to be rolled back. Other countries, by virtue of having more flexible exchange rate regimes (Algeria and Sudan), have supplemented monetary easing with some nominal depreciation to prevent a sharper deterioration in external balances.

Partly in response to changing conditions, some countries have already begun shifting to a more neutral monetary stance:

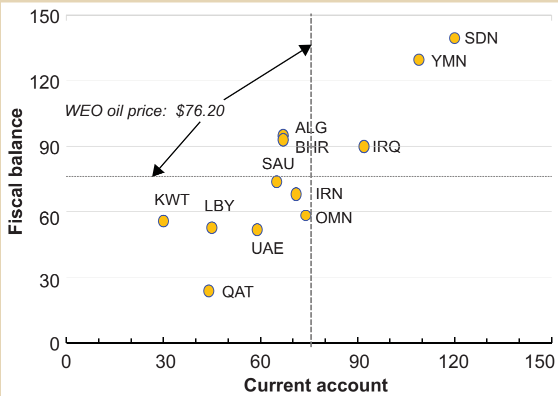
- In Oman, certain measures that had eased credit conditions—an increase in the loan-deposit ceiling and a reduction in the required reserve ratio—have been reversed.
- Sudan has begun to phase out central bank lending to banks.
- Saudi Arabia has unwound most of its extraordinary liquidity support.
- In Iran, the central bank has allowed policy rates to climb in real terms since early 2009, thus dampening domestic demand. However, given the more recent uptick in inflation, an upward adjustment in nominal rates may be needed to maintain this stance.

Qatar, on the other hand, lowered its policy deposit rates—by 50 basis points—for the first time since April 2008, citing an improvement in the country's sovereign risk premiums and high real interest rates. Indeed, for some time, Qatar had been able to maintain relatively high interest rates without inducing a surge of disruptive capital inflows.

Refocusing Medium-Term Fiscal Policy

Despite their varying fiscal policy stances, all MENAP oil exporters confront similar medium-term fiscal issues. Even for countries where fiscal space is available beyond 2011, consolidation will be needed thereafter to ensure a sustainable use of oil and natural gas revenues and to pursue intergenerational equity. Given the high dependence on oil revenues, fiscal balances

Figure 1.10
Break-Even Oil Prices in 2010
(U.S. dollars per barrel)



Sources: National authorities; and IMF staff estimates.

continue to be vulnerable to downside risks (Box 1.1). With the exception of Kuwait, Libya, and Qatar, break-even prices for oil exporters are approaching or are above the projected 2010 price (Figure 1.10).

In all countries, fiscal measures should be enacted beyond 2011 to ensure progress in several key areas, particularly reorienting spending, rationalizing energy subsidies, and diversifying the revenue base:

- *Reorienting spending:* Countries are evaluating how best to allocate public resources so as to address critical social needs (Sudan and Yemen), reconstruction requirements (Iraq), and general infrastructure and education projects that may complement private-sector activity and thereby promote greater economic diversification (the GCC). Saudi Arabia has targeted housing construction as a means to ease supply bottlenecks in this key sector. In Libya, the challenge is to ensure that government expenditure is not wasteful and is in line with the economy's absorption capacity.

- *Rationalizing energy subsidies:* Energy subsidies are prevalent across all MENAP oil exporters. For example, in 2008, implicit fuel subsidies relative to GDP are estimated to have amounted to 15 percent in Iraq, 12 percent in Iran and Yemen, 7–8 percent in Kuwait and the United Arab Emirates, 4–5 percent in Libya and Qatar, and 3½ percent in Oman. A number of governments have recently become increasingly concerned about the fiscal costs of such subsidies, the corresponding waste of resources, and the dependence of the industrial base on indefinite subsidies. Accordingly, some countries have begun to tackle these issues. An essential first step to that end is to identify subsidies explicitly in the budget, as Libya has done recently. In Iran, where retail gasoline prices are among the lowest in the region, comprehensive energy subsidy reform has been approved for implementation in 2010, although its ultimate impact on the budget is likely to be neutral.[6] Countries that phase out energy subsidies need to be mindful of the impact of higher energy prices on the poor and ensure that social safety nets can effectively mitigate this impact.

- *Diversifying the revenue base:* Efforts should be made to reduce the dependence on oil revenues, either by introducing taxes on the non-oil sector or increasing the collection efficiency of existing ones. While Yemen recently introduced a general sales tax, other countries are moving in this direction over the medium term: Iraq is planning to implement a sales tax, and the GCC is considering a region-wide introduction of a value-added tax regime in the context of an eventual monetary union. In addition, many countries are focusing on broadening the tax base, reducing exemptions, and curbing tax evasion.

Moving on Financial Sector Development

Given the diversity in initial conditions and in the crisis-related shocks encountered over the past two

[6] In line with the government's long-standing commitment to distribute oil wealth to the population, the authorities plan to distribute the fiscal savings to households and enterprises to compensate them for higher fuel costs.

years (Box 1.4), financial-sector strategies in the future will differ across countries:

- For the non-GCC countries, the challenge is to spur greater financial development, by removing entry and exit barriers and, in some cases, reducing state ownership in the banking system. Balance sheet cleanup should continue where nonperforming loans are high, and an adequate regulatory and supervisory framework should be put in place to ensure that nonperforming loans do not follow past upward trends and that adequate capital buffers are built to absorb future shocks. The latter is particularly relevant, given that fiscal space is also limited in many of these countries, greatly limiting the possibility for government capital injections during times of distress.
- For the more financially developed countries of the GCC, the challenge is to consolidate the gains made in the past and to address vulnerabilities uncovered by the crisis. While high prior capital buffers and overall financial health contributed to the resilience of these systems, there is still ample room for improvement in both the regulatory and supervisory arenas. Regulatory reform should follow global initiatives to reduce cyclicality through the use of macroprudential tools, establish stronger liquidity standards, address systemically important financial institutions, and improve bank resolution frameworks, while allowing for some degree of country-specific discretion. Efforts should be made to empower supervisory authorities and create the proper environment and incentives for forceful, proactive, and flexible supervision.
- The region has already had some success in implementing macroprudential policies. Saudi Arabia's experience with countercyclical provisioning during the boom years—reaching more than 140 percent of nonperforming loans in 2007—provides an example of the possible benefits of this type of approach. Countries can build on this success by instituting mechanisms that may provide automatic shock-absorbing capabilities, in line with the recently agreed Basel III guidelines.
- For both the GCC and non-GCC countries, the development of bond markets as an alternative and complementary source of funding can prove beneficial. The government can take

Box 1.4

Financial Sector Policy Responses to the Crisis Vary With Different Initial Conditions

MENAP oil exporters fall into two main categories in terms of how the global financial crisis affected their banking systems. GCC countries—with relatively deep banking systems that were heavily exposed to the flagging real estate and construction sectors—were hardest hit. However, their banks were also in a stronger position to withstand the shocks, and thus have proved to be quite resilient to the crisis. The generally more shallow non-GCC banking systems, characterized by considerably weaker balance sheets, were not as exposed to large, real-sector shocks emanating from the crisis, but continue to be plagued by chronically high levels of nonperforming loans.

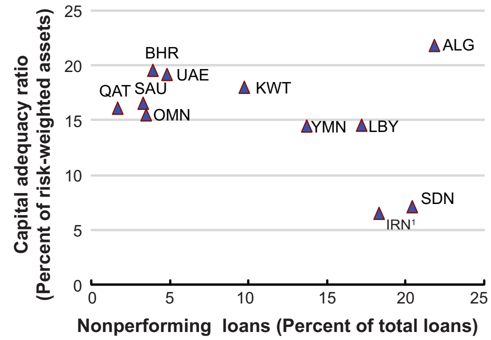
In addition to slowing down credit in MENAP oil exporters, the global financial crisis has strained bank balance sheets, by reducing liquidity and profitability, eroding asset quality, and ultimately forcing drawdowns of capital precisely at a time when resorting to the private sector to rebuild capital is difficult and/or relatively costly. The impact on the macroeconomy, channeled through the banking system, has depended on the extent to which (i) the banking sector has been exposed to sectors that have fallen the deepest, such as the real estate and construction sectors in the GCC; (ii) banks have provisioned for loan losses and/or built up capital buffers; (iii) the government has been willing and able to fill the capital shortfall where needed; and (iv) real activity has relied on bank financing.

Box 1.4 *(concluded)*

These characteristics vary significantly across MENAP oil exporters. The initial shock to profitability and asset quality was markedly greater in the GCC than in other oil-exporting countries. Although from a very low initial level, the nonperforming loan ratio more than doubled in Saudi Arabia, and doubled in the United Arab Emirates, while increasing substantially in other GCC countries. In contrast, the non-GCC countries have exhibited a more chronic problem of high nonperforming loans, even prior to the crisis; in 2008 their average nonperforming loan ratio was 20.5 percent,[1] compared with only 2.5 percent for the GCC (Figure 1).

Figure 1

Financial Stability Indicators, 2009



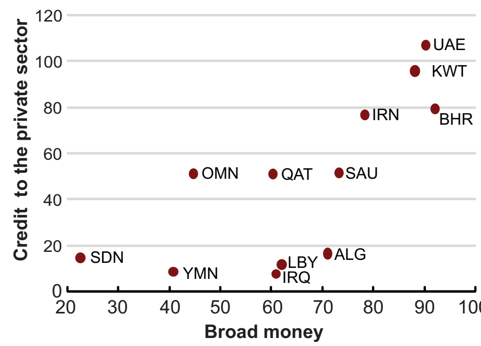
Source: National authorities.
[1] December 2008.

Precrisis capital adequacy ratios were also higher in GCC countries on average (15.8 percent of risk-weighted assets, compared with 12.1 percent for non-GCC countries), although several non-GCC countries had comfortable buffers, such as Algeria (16.5 percent) and Yemen (14.6 percent). Furthermore, throughout the GCC, governments expended a substantial effort—in fact, a large portion of their quantitative easing—to shore up bank capital. Of particular note are the vigorous government capital injections in Qatar, amounting to US$1.5 billion, combined with asset purchases (equity and real estate portfolios) from banks, both of which had an estimated impact of 2 percentage points on the capital adequacy ratio of the eight major listed banks.[2] In the United Arab Emirates, government capital injections helped increase the capital adequacy ratio by 7 percentage points, to 20 percent.

Figure 2

Measures of Financial Deepening, 2009

(Percent of GDP)



Source: National authorities.

The dependence of the real economy on bank intermediation is also strikingly heterogeneous among MENAP oil exporters (Figure 2). The ratio of broad money to GDP—an indicator of the degree of monetization of an economy—at more than 50 percent in most countries, is roughly comparable to typical emerging-economy levels. However, private-sector credit to GDP, a better measure of actual financial intermediation, differs much more widely. For some GCC countries (Bahrain, Kuwait, and the United Arab Emirates), this ratio is above 76 percent—roughly equivalent to that of Finland in 2008. For others (Algeria, Iraq, Libya, Sudan, and Yemen),[3] the ratios are well below 20 percent, indicating that the banking sector still does not play a significant role in channeling funds into productive and growth-enhancing activities.

[1] Excluding Iraq.

[2] Note that capital injections cause the numerator of the capital adequacy ratio to increase, whereas asset purchases reduce the denominator by changing the composition of assets, which reduces risk-weighted assets.

[3] Although Iran's credit-to-GDP ratio, at almost 80 percent, appears high, a large share of this figure represents state-directed credit extended by public banks.

a catalytic role, expanding its placement of securities in the domestic market—even if not required for public financing purposes—in order to assist in creating a benchmark yield curve against which private-sector placements may be priced.[7]

- Finally, financial sector policy coordination across countries will be crucial in three main areas. First, with the ever-increasing cross-border activities of banks, countries will need to design and implement their resolution and supervisory strategies in a coordinated fashion. Second, the phasing in of new measures—for example, increasing capital and liquidity requirements—should be harmonized to the extent possible to prevent regulatory arbitrage, whereby risky activities gravitate toward countries with the weakest standards. Third, given the growing share of Islamic financial institutions in the region, it is imperative to develop common minimum standards and best practices for Shari'a-compliant activities.

[7] In this area the IMF, with the Arab Monetary Fund, provides technical assistance under the Arab Debt Market Development Initiative (ADMDI), which was launched in 2009.

Selected Economic Indicators: MENAP Oil Exporters

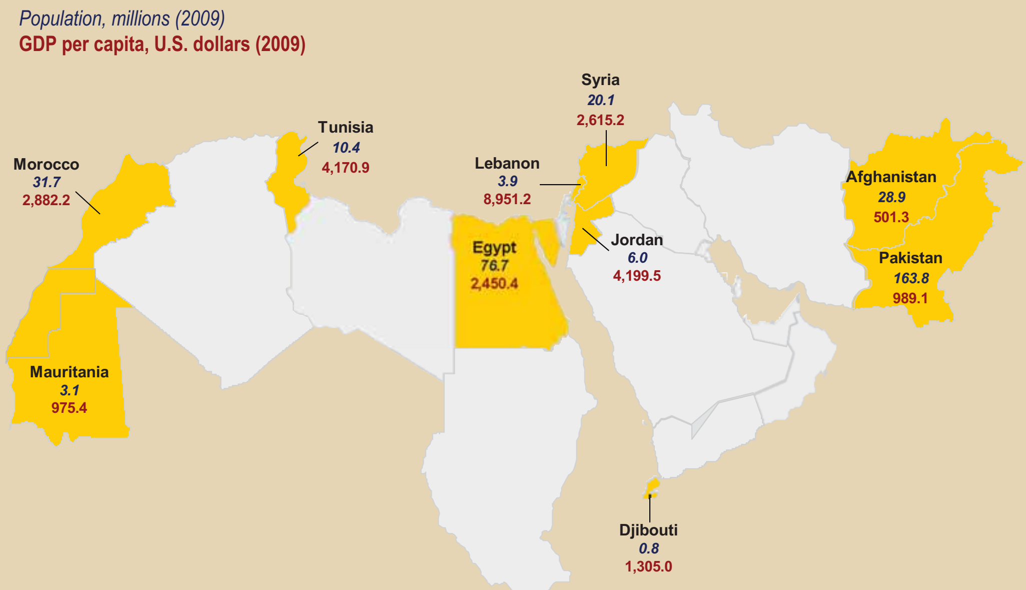
	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
Real GDP Growth	**5.5**	**5.5**	**6.0**	**4.5**	**1.1**	**3.8**	**5.0**
(Annual change; percent)							
Algeria	4.5	2.0	3.0	2.4	2.4	3.8	4.0
Bahrain	6.0	6.7	8.4	6.3	3.1	4.0	4.5
Iran, I.R. of	5.5	5.8	7.8	1.0	1.1	1.6	3.0
Iraq	...	6.2	1.5	9.5	4.2	2.6	11.5
Kuwait	7.1	5.3	4.5	5.5	-4.8	2.3	4.4
Libya	4.3	6.7	7.5	2.3	-2.3	10.6	6.2
Oman	3.3	5.5	6.8	12.8	3.6	4.7	4.7
Qatar	8.7	18.6	26.8	25.4	8.6	16.0	18.6
Saudi Arabia	4.0	3.2	2.0	4.2	0.6	3.4	4.5
Sudan	6.4	11.3	10.2	6.8	4.5	5.5	6.2
United Arab Emirates	7.7	8.7	6.1	5.1	-2.5	2.4	3.2
Yemen	4.5	3.2	3.3	3.6	3.9	8.0	4.1
Consumer Price Inflation	**6.2**	**8.7**	**10.8**	**15.0**	**6.8**	**5.9**	**6.4**
(Year average; percent)							
Algeria	2.3	2.3	3.6	4.9	5.7	5.5	5.2
Bahrain	0.7	2.0	3.3	3.5	2.8	2.6	2.5
Iran, I.R. of	14.1	11.7	17.2	25.5	13.5	8.0	10.0
Iraq	...	53.2	30.8	2.7	-2.8	5.1	5.0
Kuwait	1.7	3.1	5.5	10.6	4.0	4.1	3.6
Libya	-3.3	1.4	6.2	10.4	2.8	4.5	3.5
Oman	0.1	3.4	5.9	12.6	3.5	4.4	3.5
Qatar	3.5	11.8	13.8	15.0	-4.9	1.0	3.0
Saudi Arabia	-0.1	2.3	4.1	9.9	5.1	5.5	5.3
Sudan	7.6	7.2	8.0	14.3	11.3	10.0	9.0
United Arab Emirates	3.6	9.3	11.1	12.3	1.2	2.0	2.5
Yemen	11.6	10.8	7.9	19.0	3.7	9.8	8.9
General Government Fiscal Balance	**5.5**	**12.9**	**10.3**	**12.8**	**-2.1**	**0.5**	**2.9**
(Percent of GDP)							
Algeria	6.6	13.5	4.4	7.7	-6.7	-9.9	-8.4
Bahrain[1]	1.7	2.8	1.1	4.9	-8.9	-5.4	-5.5
Iran, I.R. of	2.0	0.0	2.7	0.0	-1.7	0.4	2.4
Iraq	...	15.5	12.4	-3.3	-21.9	-14.2	-8.2
Kuwait[1]	27.2	35.4	39.8	19.9	19.6	17.1	17.8
Libya	12.6	33.1	33.3	30.3	9.4	13.3	14.2
Oman[1]	8.4	13.8	11.0	13.8	1.2	5.3	4.9
Qatar	8.8	8.6	10.8	10.3	14.4	10.8	7.3
Saudi Arabia	7.7	24.6	15.7	35.4	-2.4	1.9	6.2
Sudan	-0.6	-4.3	-5.4	-1.4	-4.7	-3.7	-4.6
United Arab Emirates[2]	6.2	16.6	13.8	12.3	-12.4	-2.7	3.7
Yemen	0.0	1.2	-7.2	-4.5	-10.2	-5.5	-5.0
Current Account Balance	**11.8**	**22.9**	**18.9**	**19.5**	**4.6**	**6.7**	**7.8**
(Percent of GDP)							
Algeria	14.0	24.7	22.8	20.2	0.3	3.4	3.6
Bahrain	5.0	13.8	15.7	10.3	2.7	5.2	5.5
Iran, I.R. of	5.2	9.2	11.9	7.3	3.6	4.2	4.5
Iraq	...	19.0	12.5	12.8	-25.7	-14.4	-8.6
Kuwait	26.2	44.6	36.8	40.7	29.1	30.1	30.3
Libya	18.9	49.8	41.7	41.7	15.7	20.1	20.3
Oman	9.4	15.4	5.9	8.3	-0.6	5.8	6.1
Qatar	25.5	26.6	26.9	31.2	14.3	15.6	23.0
Saudi Arabia	13.6	27.8	24.3	27.8	6.1	6.7	6.2
Sudan	-9.5	-15.2	-12.5	-9.0	-12.9	-8.9	-7.1
United Arab Emirates	11.0	20.6	9.7	8.6	4.0	5.4	5.6
Yemen	5.3	1.1	-7.0	-4.6	-10.7	-4.9	-4.5

Sources: National authorities; and IMF staff estimates and projections.
[1]Central government.
[2]Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.

2. MENAP Oil Importers: Adjusting to New Global Growth Patterns[1]

At a Glance

MENAP oil importers withstood the 2008–09 global financial crisis well, having effectively used their limited room for countercyclical macroeconomic policy. As their economies have gained strength, these countries are now in a position to begin consolidating their fiscal positions. The overriding longer-term challenge remains that of creating enough jobs for a rapidly expanding population. To this end, improving the region's competitiveness and reorienting trade toward faster-growing emerging markets are key, at a time when traditional European trading partners are growing more slowly.



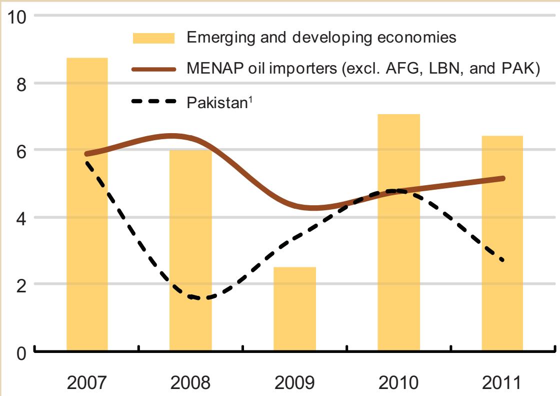
Sources: IMF, Regional Economic Outlook database; and Microsoft Map Land.
Note: The country names and borders on this map do not necessarily reflect the IMF's official position.

Recovery Gathers Momentum

The region's economies have for the most part continued to strengthen in 2010 (Figure 2.1). In Egypt, Morocco, and Tunisia, annual nonagricultural GDP growth has increased progressively since the first quarter of 2009, reaching 5½–6 percent in the first quarter of 2010 and offsetting lower growth in agriculture. Djibouti, Mauritania, and Syria are also growing robustly, with output projected to expand by 4½–5 percent in 2010. Not all countries, however, are following the same pattern of recovery. In Pakistan, the recent flooding has had a devastating impact on the population, and projected output growth for FY2010/11 has been revised down by some 1½ percentage points from more than 4 percent (Box 2.1). At the other end of the scale, Afghanistan and Lebanon grew rapidly in 2009, notwithstanding

[1] Prepared by Tobias Rasmussen with input from country teams.

Figure 2.1
Output Mostly Picking Up
(Real GDP growth; percent)



Sources: National authorities; IMF, World Economic Outlook database; and IMF staff estimates.
[1]Figures for Pakistan are on a fiscal year basis (July–June), with FY2010/11 shown as 2011.

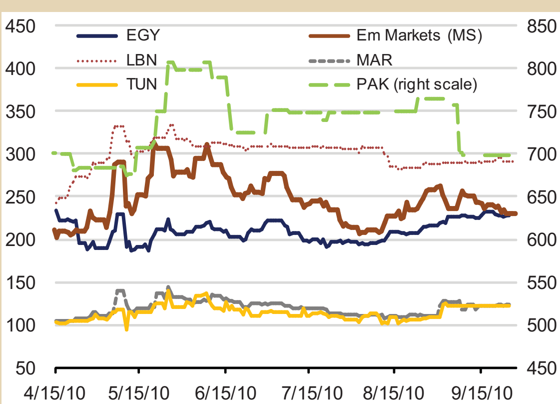
the global recession, and are projected to continue to expand by 8–9 percent in 2010.

In most countries, external receipts are again growing solidly. By mid-2010, import and export growth had broadly stabilized after registering a sharp decline and subsequent rebound in the aftermath of the global crisis. Workers' remittances are also increasing steadily, with only Tunisia—where almost all remittances are from Europe—projected to register lower inflows in 2010 than in 2009. Current account deficits are accordingly expected to remain mostly near current levels, averaging about 3½ percent of GDP in both 2010 and 2011. Foreign direct investment has continued to decline in several countries, but is projected to recover in 2011 along with the global trend.

The region has also remained resilient to turbulence in global financial markets. The April–May 2010 financial market tremors prompted by debt problems in southern Europe did not have much of an impact on these countries. Egypt experienced some capital outflows, but sovereign debt interest rate and credit default swap (CDS) spreads in Egypt, Morocco, and Tunisia rose only marginally. CDS spreads did increase in Lebanon and Pakistan, but not much more than emerging markets overall (Figure 2.2). Moreover, aside from Egypt where markets have in part been impacted by uncertainty ahead of the upcoming elections, the region's stock market indices fell by less than the emerging-market average in May, although markets in Jordan and Lebanon have continued to fall, while other emerging markets have rebounded (Figure 2.3).

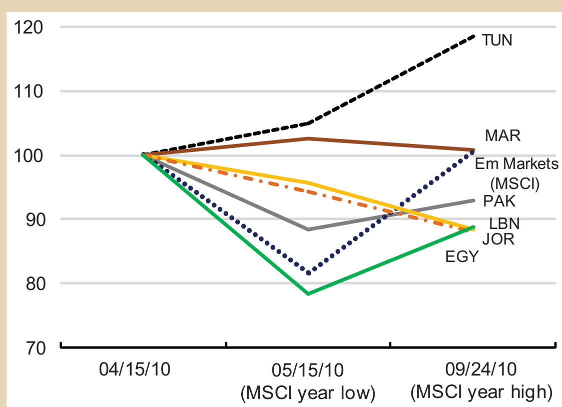
Credit to the private sector has been picking up since late 2009, and is now increasing at an annual rate of more than 10 percent in all countries except Egypt, Jordan, Mauritania, and Pakistan. Testifying to the region's insulation from the global financial crisis, nonperforming loans are mostly lower than they were two years ago,

Figure 2.2
Local Debt Spreads Comparatively Steady
(Credit default swap spreads; basis points)



Sources: Bloomberg; and Markit.

Figure 2.3
Equity Swings
(Stock index; April 15, 2010=100)



Source: Bloomberg.

Box 2.1

Unprecedented Floods in Pakistan: The Social and Economic Impact

The July/August 2010 floods in Pakistan took a terrible human toll, and will have economic consequences that extend beyond the immediate destruction. The government has been quick to respond to the challenges with the help of the international community.

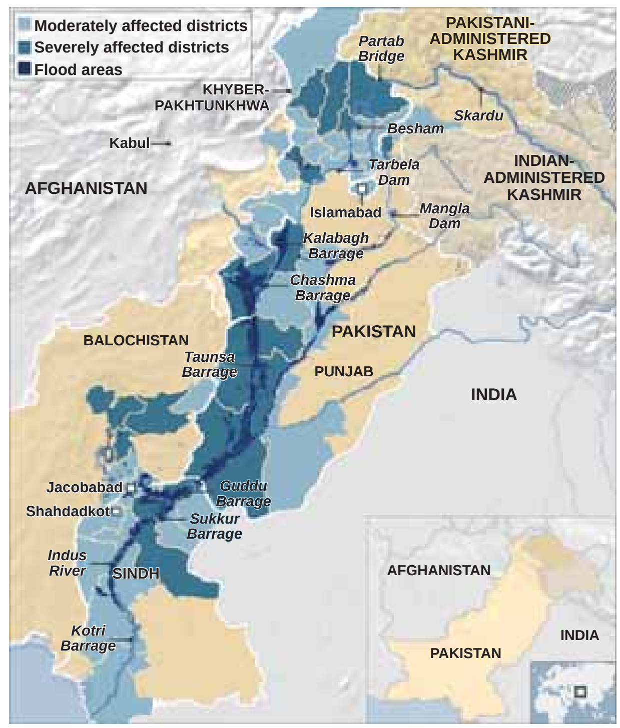
The massive floods that were triggered by heavy monsoon rains in north Pakistan caused rivers to burst their banks, destroying entire villages. An estimated 20 million people—more than 10 percent of the population—have been affected so far, and thousands have been killed or wounded. Almost 2 million homes have been destroyed or damaged, and roads, telecommunications, and energy infrastructure have suffered extensive damage.

The full extent of the economic damage is not yet known, but it is estimated that real GDP growth is unlikely to exceed 2¾ percent in FY2010/11, compared with a projected rate of more than 4 percent prior to the floods. In particular, agriculture—which accounts for 21 percent of GDP and 45 percent of employment—has been hit hard: an estimated 10 percent of total cropped area has been flooded, and many livestock have been lost. Manufacturing has also been affected, which will hurt exports.

The authorities' initial response has focused on emergency relief efforts, in close cooperation with the United Nations, and on mobilizing donor support. The IMF responded swiftly with US$450 million in emergency assistance in September. Other donors have also announced support.

The damage to infrastructure will be felt beyond 2010, weighing on growth and adding to Pakistan's fiscal challenges. The World Bank and Asian Development Bank are conducting a needs and damage assessment, which will provide the basis for a revised budget and medium-term fiscal framework.

Floods in Pakistan



Sources: Office for the Coordination of Humanitarian Affairs (August 23, 2010), underlying data; British Broadcasting Corporation (August 23, 2010), map design.
Note: This map was found on the BBC website at this URL: www.bbc.co.uk/news/world-south-asia-11060686.

The authors are Udo Kock, Paul Ross, Jaroslaw Wieczorek, and Jiri Jonas.

although in a few countries still above 10 percent of total loans. With some exceptions, most recently in Afghanistan, the region's banks are generally on a sound footing.

Overall, these economies are near their long-term growth trend. Combined real GDP growth is projected at 5 percent in 2010 and 4.4 percent in 2011, close to the 2000–08 average of 4.8 percent. Indeed, the region stands out by how well activity has weathered the global recession, with only Mauritania having experienced negative growth in 2009, and most countries having already largely closed any remaining gap between actual and potential output. At the same time, however, the region's growth trend remains well below the emerging market average.

Fiscal Consolidation Under Way

In light of stronger economic growth, the region's governments are appropriately resuming efforts to strengthen public finances. While public debt levels in most MENAP oil-importing countries are higher than the emerging market average (Figure 2.4), improvements in fiscal positions in the years leading up to the global financial crisis gave room for stimulus that limited the fallout in 2008–09. Now, with their economies again growing solidly and revenue picking up, most oil importers are planning to resume fiscal consolidation efforts. As a result, government deficits are projected to narrow in 2011 in all countries except Afghanistan and Lebanon.

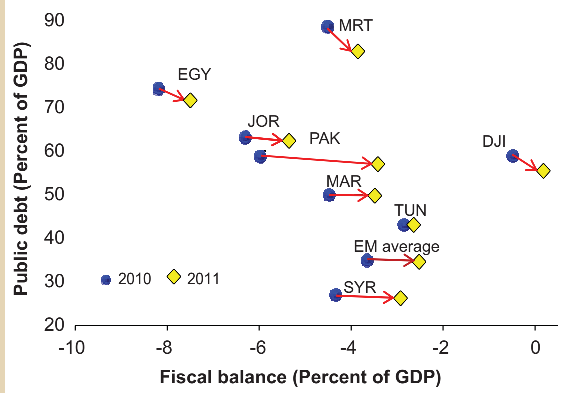
The plans for fiscal consolidation are largely targeted at reducing expenditures. While they also include such measures as the introduction of a value-added tax (VAT) in Syria and improvements in tax administration in several other countries, consolidation focuses mainly on curtailing subsidies and other current outlays (Table 2.1). This emphasis on administrative improvements and reduction of inefficiencies should help minimize any adverse impact on aggregate demand in the near term and help bolster future growth. However, efforts to reduce subsidies notwithstanding, the recent spike in world wheat prices could offset spending reductions to the extent that governments limit the pass-through to domestic consumers.

- In Egypt, the government is resuming its medium-term fiscal consolidation strategy after having provided fiscal stimulus for two years. By strengthening tax enforcement, raising sales taxes on some items, and rationalizing food and energy subsidies, the aim is to reduce the budget sector fiscal deficit by 0.5 percent of GDP in FY2010/11 (July–June) and bring it to about 3.5 percent of GDP by FY2014/15.
- In Jordan, a combination of the elimination of VAT exemptions, a civil service hiring freeze (except for the health and education sectors), lower subsidies, and reduced spending on goods and services, should reduce the overall deficit by close to 1 percent of GDP in 2011.
- In Mauritania, an increase in the VAT rate, administrative reforms, and a reduction in discretionary spending have helped reduce the deficit to a projected 4.5 percent of GDP in 2010. Additional savings are expected in 2011.

Figure 2.4

Narrowing Fiscal Deficits

(Overall fiscal balance and public debt; percent of GDP)



Sources: National authorities; and IMF staff calculations.

Table 2.1

Fiscal Consolidation Measures Planned for 2011

(Percent of GDP)

	Revenue Increases				Expenditure Reductions				Total Impact
	VAT	Income Taxes	Other Taxes	Revenue Admin	Wages	Subsidies	Other Current	Captial	
Egypt			0.1	0.1		0.3			0.5
Jordan	0.2				0.1	0.4	0.2		0.9
Pakistan	0.5	0.1	-0.1		-0.1	0.7	0.6	0.2	2.0
Syria	1.8			0.2					2.0
Tunisia						0.2	0.1	-0.1	0.2

Note: Based on IMF staff estimates, not necessarily reflecting the recent spike in world wheat prices.

- In Pakistan, prior to the floods, the authorities had aimed for substantial consolidation during the second half of 2010 and in 2011, mostly in subsidies and other current expenditure, with a total savings target of 2 percent of GDP for 2010/11. The floods, however, have created the need for substantial expenditure on rescue and relief operations and on rehabilitation and reconstruction, which will necessitate a review of the deficit target.
- In Syria, the 2010 budget implied a moderate tightening of the fiscal stance. In 2011, the authorities plan to introduce a VAT and to continue to restrain current spending and rationalize capital outlays.
- In Tunisia, a nominal cap on transfers and subsidies, more active debt management, lower interest payments, control on wages, and a major anticipated reform of the pension system will help reduce the deficit.

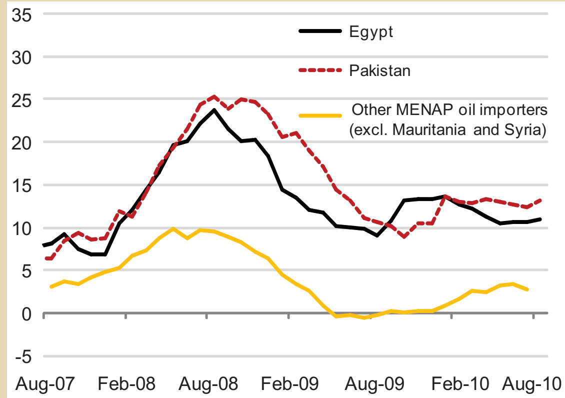
Monetary Policy Can Remain Accommodative

Outside of Egypt and Pakistan, inflation is not an immediate concern in the region (Figure 2.5, Box 2.2). Given relatively stable inflation rates, most MENAP oil-importing countries can comfortably maintain their current monetary policy stance. Indeed, after reducing interest rates in 2009 and early 2010, these countries have for the most part kept policy rates unchanged, maintaining existing spreads over rates in advanced economies. Until June, Lebanon gradually reduced its policy rate, in part to slow the pace of reserve accumulation, but has paused since then to allow for a fuller pass-through of earlier rate cuts before

Figure 2.5

Inflation Holding Steady

(Consumer prices; annual percent change)



Sources: Haver Analytics; and national authorities.

Box 2.2

Why Is Inflation High in Egypt and Pakistan?

Policy differences explain why inflation in Egypt and Pakistan has for the past several years been significantly higher than in other MENAP oil importers. In Pakistan, central bank–financed government borrowing creates excess liquidity that feeds into higher prices. In addition, increases in administered support prices for key commodities (wheat, in particular) have spilled over into headline inflation. In Egypt, inflation has in large part been driven by a surge in prices of several food items and the government's streamlining of consumer subsidies—a welcome move. Absent a clear nominal anchor, these price increases have raised inflation expectations and contributed to the inflationary momentum.

Overall, inflationary pressures appear to be more pronounced in Pakistan. Indeed, while the central bank recently increased its policy rate, the flood has added to price pressures in Pakistan. In Egypt, while price increases across product categories have not been as widespread, spending pressures may arise from the upcoming parliamentary and presidential elections and feed into higher inflation.

The authors are Maria Albino-War, Udo Kock, and Kenji Moriyama.

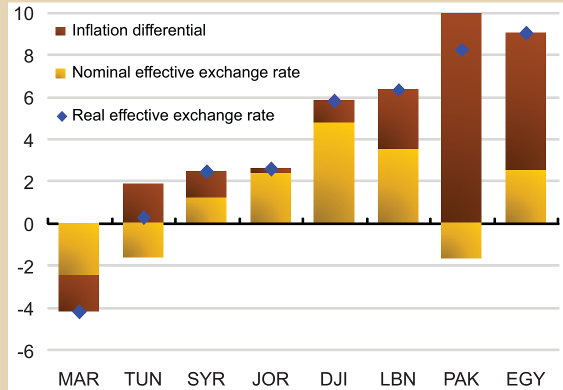
taking further interest rate decisions. Moving in the other direction, Pakistan raised its discount rate by 50 basis points in August and again in September to stem inflationary pressures.

While low interest rates will help spur growth in the region, recent real exchange rate appreciations are a dampening factor. Over the past year, countries whose currencies tend to track the U.S. dollar have seen their nominal effective exchange rates appreciate along with the greenback (Figure 2.6). Compared with other MENAP oil importers, Morocco and Tunisia's currencies are more closely linked to the euro, but, as the bulk of their trade is with Europe, they have been less affected by exchange rate changes among major reserve currencies. For Egypt, however, where relatively high rates of inflation and nominal appreciation have coincided, the resulting real effective exchange rate appreciation points to a more difficult competitive position.

Figure 2.6

Currencies Mostly Appreciating

(Percent changes, year to July 2010; increase represents appreciation)



Sources: National authorities; and IMF staff calculations.

Current Growth Too Low to Address Unemployment

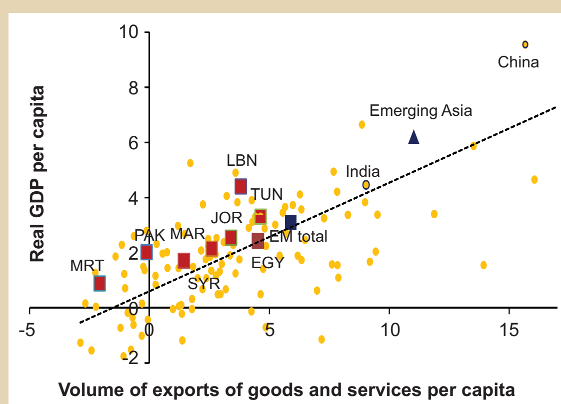
Looking further ahead, the main challenge will be to raise growth to provide employment for a working age population that is growing faster than in almost all other regions and where more than half are below 25 years of age. High unemployment, averaging 11 percent in 2008, carries significant social and economic costs and remains a major policy concern (Annex 2.1). To absorb the currently unemployed and new entrants into the labor market over the next decade and assuming that the ratio of jobs created to economic growth remains constant, annual growth would need to reach 6½ percent—2 percentage points more than during the past decade. While this may be a tall order, many of the factors holding back labor demand are also dampening economic growth more broadly, and there is extensive scope to increase both the pace of growth and the responsiveness of the labor market.

During the past two decades, per capita economic growth in the region has been substantially lower than in other emerging markets (Figure 2.7). The picture differs across countries, and, in particular, Lebanon (having emerged from the 1975–90 civil war) and Tunisia have performed relatively well. But, altogether, MENAP oil importers' 55 percent increase in real GDP per capita since 1990 has been one-third less than that of emerging and developing countries as a whole, and far below the more than 200 percent increase in emerging Asia. The region's relatively lackluster GDP growth mirrors its weak trade performance: all MENAP oil importers have fallen below the

Figure 2.7

Lagging Output and Export Growth

(Average annual percent change, 1990–2009)



Source: IMF, World Economic Outlook database.
Note: Emerging Asia refers to China, Hong Kong SAR, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan Province of China, Thailand, and Vietnam.

emerging market average in terms of per capita export growth since 1990. This shortfall has been more pronounced in exports of goods than in services, but both have been falling behind.

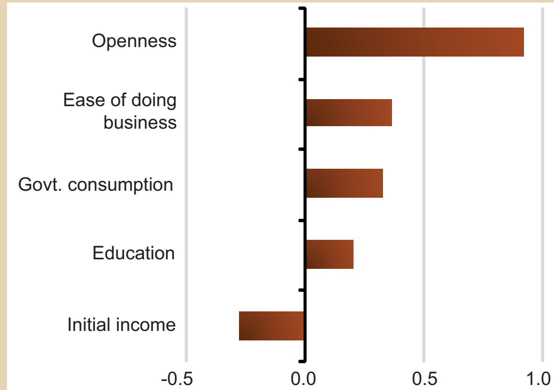
Moreover, the region's shortfall in income growth compared with that of other emerging markets has widened over time. During 2000–08, real GDP per capita growth rates increased throughout the region, averaging close to 3 percent a year compared with 2.3 percent during the 1990s. Over the same period, however, the corresponding growth rate for emerging markets jumped from about 3.5 percent to almost 5 percent, widening the gap vis-à-vis MENAP oil importers. In addition, whereas during the 1990s the gap in per capita income growth was mainly relative to fast-growing countries in Asia, during 2000–08 a gap has also emerged relative to that of emerging markets in all other regions, except the Western Hemisphere.

An analysis of growth determinants indicates that greater integration with international markets could provide a substantial boost to income. Indeed, evidence suggests that bringing the region's openness to the level of Emerging Asia could increase annual per capita GDP growth by almost a full percentage point (Figure 2.8). Growth is positively related to trade openness, the ease of doing business, and education levels, and negatively related to government consumption and initial income levels. MENAP oil importers' lower average level of income in 1990, compared with that of Emerging Asia, should thus have contributed to higher growth in the former. But, on each of the other growth drivers, MENAP oil importers score below the average for Emerging Asia.

Figure 2.8

Growth Differentials Explained

(Estimated contribution to shortfall in MENAP oil importers' average annual percentage growth of real GDP per capita compared with Emerging Asia, 1990–2008)



Sources: IMF, World Economic Outlook database; World Development Indicators; World Economic Forum; and IMF staff calculations.
Note: Openness is measured as a ratio of total imports and exports to GDP; Ease of doing business is the World Bank's ranking; Government consumption is its ratio to GDP; Education is the secondary enrollment rate multiplied by the World Economic Forum's score for quality of the education system; and Initial income is PPPGDP per capita in 1990.

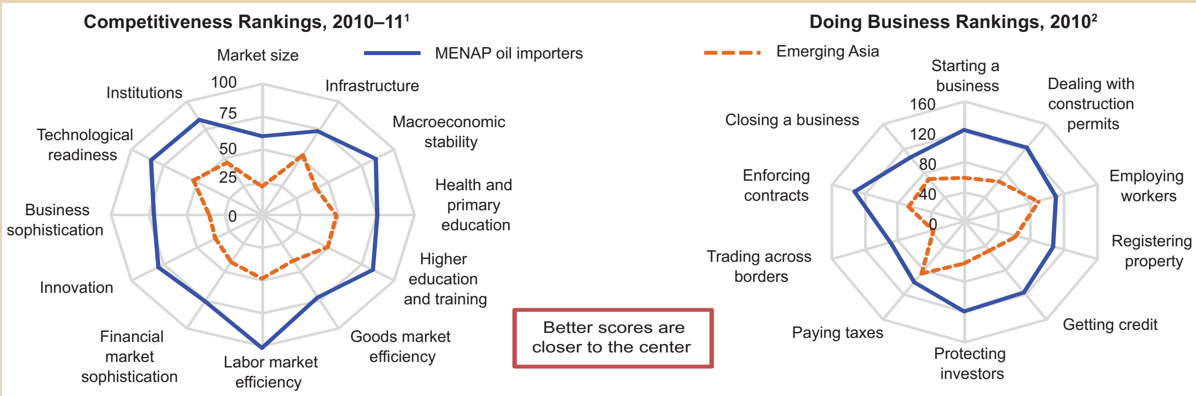
Greater Competitiveness Key to Lifting Growth

Despite recent improvements, MENAP oil importers need to enhance their competitiveness. The region—generally characterized by burdensome regulatory systems, weak institutions, and a dominating public sector—has much to do to become competitive relative to other more dynamic economies. Persevering with sound macroeconomic policies—and, in particular, fiscal consolidation—will help support long-term growth and competitiveness, but the region will also need to redouble efforts to improve the business climate.

International rankings point to specific areas requiring improvements. While countries in the region have made substantial progress toward strengthening their business environments, according to widely cited rankings of global competitiveness and the ease of doing business, only Tunisia and Jordan come close to matching the average level for Emerging Asia. The World Economic Forum's *Global Competitiveness Report* finds that the region ranks particularly poorly in labor market efficiency. And the World Bank's *Doing Business* report identifies enforcing contracts, starting a business, and dealing with construction permits as the most problematic areas (Figure 2.9).

On the trade front, most MENAP oil importers have streamlined and lowered tariffs over the past two decades, often in the context of trade agreements with the European Union and the United States.

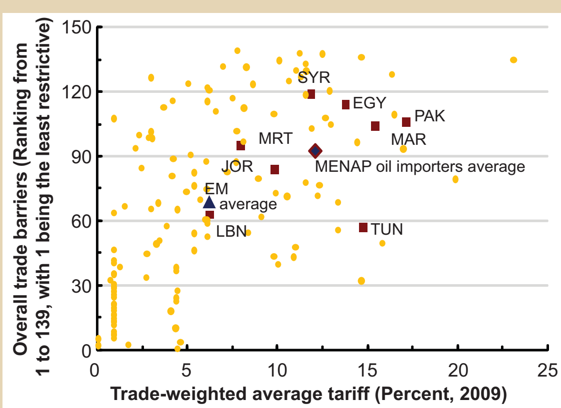
Figure 2.9
Competitiveness and Doing Business Indicators



Sources: World Economic Forum, Global Competitiveness Report, 2010–11; World Bank, Ease of Doing Business Rankings, 2010.
[1]Economies are ranked from 1 to 139, with first place being the best. MENAP oil importers is a simple average of Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Syria, and Tunisia.
[2]Economies are ranked from 1 to 183, with first place being the best. MENAP oil importers is a simple average of Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Syria, and Tunisia.

Egypt and Syria, in particular, have accelerated their progress in this area in recent years. Such moves have in many countries been accompanied by privatization of key industries, which, along with easier access to foreign capital and technology, has led to a pickup in exports and has contributed importantly to the improved economic outcomes of the past decade. Nevertheless, oil importers' tariffs—averaging over 12 percent in 2009—remain high, and several countries in the region rank at the lower end among 139 countries surveyed on a measure of overall trade restrictiveness (Figure 2.10).

Figure 2.10
Trade Restrictions



Source: World Economic Forum, Global Competitiveness Report, 2010/11.

The MENAP oil importers' lagging trade performance indicates a need to adjust to changing global growth dynamics. The region's trading patterns remain oriented mainly toward Europe, and there has been relatively little change in the product mix (Box 2.3). Over time, as global growth has shifted more toward emerging markets, continued close links to Europe have meant that the region has benefitted relatively little from the high growth of Asian and Latin American powerhouses. Indeed, the BRICs (Brazil, Russia, India, and China) are now contributing close to half of global GDP growth, but account for only about 9 percent of MENAP oil importers' total exports.

Better economic outcomes will require new trading patterns. Exporters of raw materials—such as Mauritania (iron ore), and Morocco and Jordan (phosphates)—are already benefitting from high demand in China and India. Remarkably, China now accounts for more than 40 percent of Mauritania's total exports, up from less than 5 percent before 2004. Aside from raw material sales, however, MENAP oil importers have often found it difficult to compete with lower-cost Asian producers, especially in traditional core areas, such as textiles and other basic manufacturing. Moreover, declining transport costs have eroded their advantage of proximity to markets in Europe. As such, they will

Box 2.3

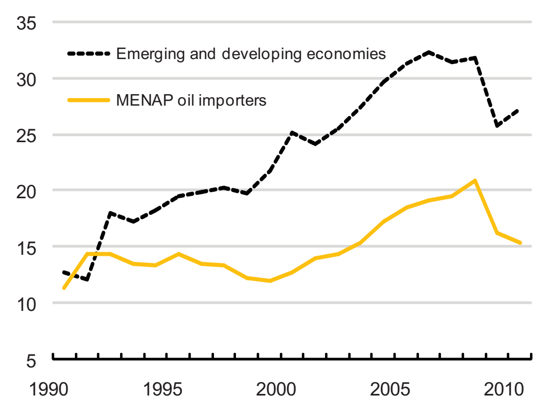
Trade Patterns and Determinants in MENAP Oil-Importing Countries

Trade has not been as strong an engine of growth for the MENAP oil importers as it has for other emerging and developing economies. Goods exports currently represent about 15 percent of GDP, compared with more than 25 percent of GDP for emerging and developing economies overall (Figure 1). The direction and product mix of oil importers' exports has been relatively static, and volumes have not increased as much as in other emerging markets.

Considering their close proximity to major markets, these countries could be exporting 50 percent more than they currently are. Distance is one of the most important determinants of trade, with countries tending to export more to those nearby, in particular those with which they share a common border. The MENAP oil importers, however, trade little with their immediate neighbors and, overall, export much less than they could (Figure 2).

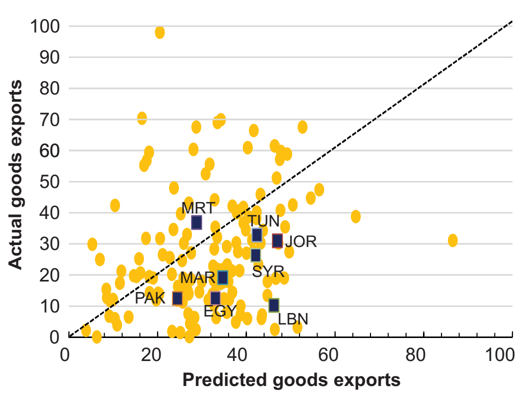
Export patterns of MENAP oil-importing countries have responded relatively little to changing global growth dynamics. Overall, the direction of exports has remained largely unchanged over the past several decades, despite the growing importance of emerging and developing economies, which have more than doubled their share of world imports since 1990 to about 35 percent. Reflecting geographical proximity and close historical ties, the MENAP oil importing countries' exports have mainly been oriented toward Europe, which has, on average, accounted for some 50–60 percent of their total exports since the 1970s (Figure 3). Exports to other advanced economies (mainly the United States) and to other MENAP countries (mainly the Gulf countries) each comprise about 15–20 percent of the total. Although having picked up somewhat in recent years, exports to other emerging economies still account for just 10 percent.

Figure 1
Exports of Goods
(Percent of GDP)



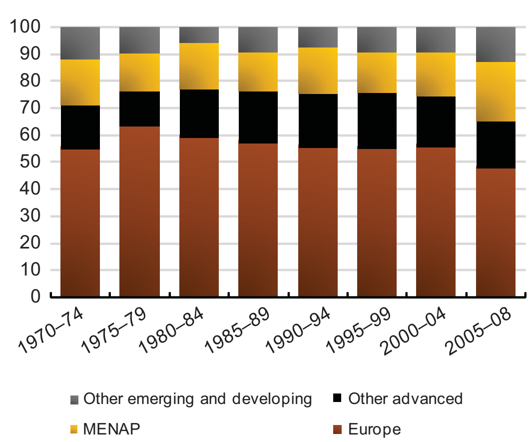
Source: IMF, *World Economic Outlook*.

Figure 2
Actual and Predicted Goods Exports
(Percent of GDP, 2000–08 average)



Sources: Comtrade; IMF, World Economic Outlook database; and IMF staff calculations.
Note: Predicted trade based only on geography and population.

Figure 3
MENAP Oil Importers: Goods Export Destinations
(Percent of total exports)



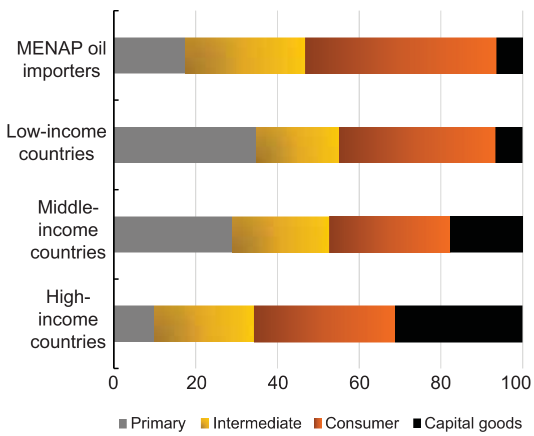
Source: IMF, *Direction of Trade Statistics*.

Box 2.3 *(concluded)*

Figure 4

Composition of Goods Exports

(Percent of total exports, 2008)

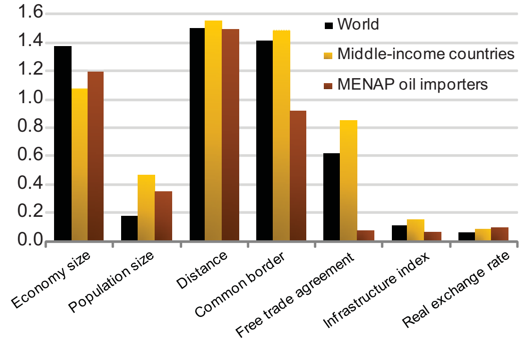


Source: United Nations Comtrade.

Figure 5

Determinants of Trade

(Elasticity of exports to determining factors, 1990–2008)



Sources: Comtrade; World Development Indicators; World Trade Law. Net; and IMF staff calculations.

Note: The coefficients represent the estimated percentage change in bilateral exports from a 1 percent increase in the determining factor, except for common border and free trade agreement, where the coefficient is the percentage increase in trade from their presence.

At the same time, progress toward transitioning into higher-value-added products has been limited. For the group as a whole, exports are mainly concentrated in intermediate and consumer goods (Figure 4). More technologically advanced and higher value-added capital goods accounted for just 6 percent of total exports in 2008. While increasing slightly since the early 1990s, the share of capital goods in total exports remains lower than the low-income-country average.

An analysis of trade determinants suggests that the region could gain more leverage from existing free trade agreements and infrastructure, as well as from trade with neighboring countries (Figure 5). The influence on trade of other factors, such as real exchange rates and country size, is in line with the rest of the world.

The authors are Dominique Guillaume and Martin Banjo.

need to find new niches and transition into more sophisticated products.

Intraregional commerce is also a promising area: intraregional exports and foreign direct investment have steadily increased, but remain relatively limited. Within the MENAP region, the oil-importing countries are endowed with abundant labor supplies, but are often short on capital. In the oil-exporting countries, the reverse is typically the case. As such, there is significant potential to expand the economic relationship between the two groups, from one based primarily on labor flows to an expansion of trade and investment. In addition, oil importers could trade much more with one another. At present, such trade accounts for just 1¾ percent of their total imports, even less than their 2½ percent share of MENAP oil exporters' total imports.

Ultimately, fostering trade and spurring job-creating growth calls for an acceleration of reforms that better harness the regions' assets, including its underutilized labor resources and its location at the crossroads of Europe and Asia. Enhancing trade and cooperation with other emerging markets can help lift growth but will require greater competitiveness. To this end, the region will need to address its shortcomings in education, enhance the flexibility of its labor markets, and further remove obstacles to trade.

Annex 2.1. 18 Million Jobs Needed: Raising Growth and Labor Market Responsiveness

Addressing high unemployment is a longstanding but increasingly urgent challenge for MENAP oil importers. Unemployment rates in Egypt, Jordan, Lebanon, Morocco, Syria, and Tunisia (hereafter, the MENA6) have averaged about 12 percent over the past two decades (Figure 1). Such levels of unemployment imply substantial social and economic costs. As the IMF Managing Director noted in regard to high unemployment globally, "We must not underestimate the daunting prospect we face: a lost generation, disconnected from the labor market, with a progressive loss of skills and motivation." [1]

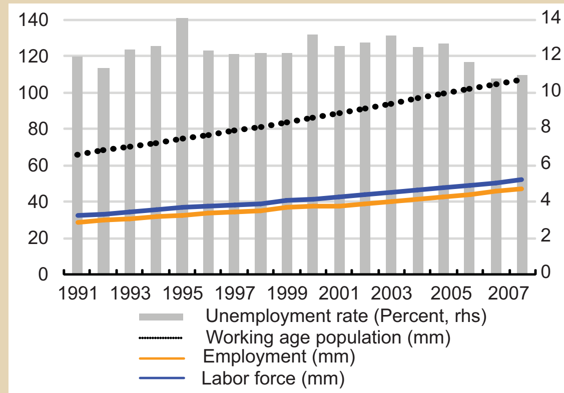
High unemployment levels in the MENA6 have contributed to large outward migration, with the estimated stock of migrant workers abroad equivalent to perhaps 15 percent of the combined labor force present in the MENA6. Given greater competitive pressure from other emerging markets and reduced prospects for continued large outward migration due to sharply higher unemployment in advanced economies, the region increasingly cannot afford the status quo.

To absorb the unemployed and new entrants to the labor force, the MENA6 will need to increase employment by an estimated 18½ million full-time positions over the next decade—although even this would leave the employment to working age population ratio lower than that currently observed in any other region. If the pace of output growth and the relationship between growth and employment remain unchanged from the decade up to 2008, however, only 11 million new jobs could be created.

Reaching the job target will require a combination of permanently higher economic growth and reforms to improve the responsiveness of the labor market. The fact that unemployment has remained high for so long indicates that the problem is largely structural and will not be resolved by a cyclical increase in output. Moreover, the concentration of unemployment among the youth (Figure 2) and educated suggests that any solution will need to involve greater labor market flexibility and educational reforms. Surprisingly, unemployment in this region tends to increase with schooling, exceeding 15 percent for those with tertiary education in Egypt, Jordan, and Tunisia. In addition, the share of youth in total unemployment exceeds 40 percent in Egypt, Lebanon, Syria, and Tunisia, far more than in the rest of the world.

Figure 1

MENA6: Demographics and Unemployment



Sources: National authorities; IMF, *World Economic Outlook;* staff estimates; and International Labor Organization.

Why is unemployment so persistently high?

Demographic transition. Over the past decade, the labor force in the MENA6 has grown at an average annual rate of 2.7 percent, faster than in any other region of the world, save Africa. The region's labor force growth is expected to gradually decelerate over the next decade, but will continue

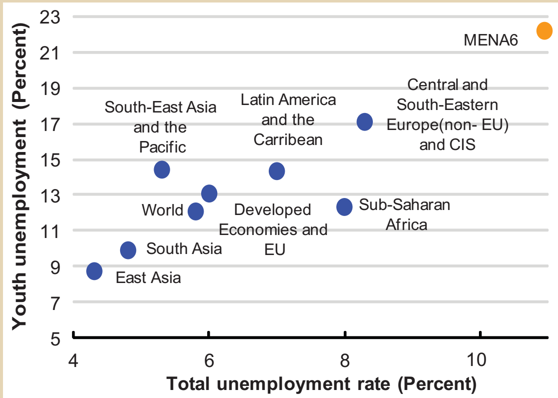
The authors are Yasser Abdih and Anjali Garg.

[1] See IMF Managing Director's September 13 opening remarks at the joint ILO-IMF Conference in Oslo, *The Challenges of Growth, Employment, and Social Cohesion*, www.imf.org/external/np/sec/pr/2010/pr10339.htm.

Figure 2

Total and Youth Unemployment Rates by Region[1,2]

(2008[3])



Sources: National authorities; IMF, World Economic Outlook; staff estimates; and International Labor Organization.

[1]Unemployment rate for Morocco reflects data from Urban Labor Force Survey.

[2]Youth unemployment estimate for MENA6 excludes Jordan.

[3]Or most recent year for which data are available.

to outpace most other regions. The number of labor force entrants remains daunting—approximately 10 million new entrants are expected to join the labor force in the coming decade, compared with 13½ million in the previous decade. As such, demographic pressures will remain high.

Skill mismatches. The MENA6 countries have made important strides in providing education. Primary enrollment rates range from 88 percent in Lebanon and Egypt to 98 percent in Tunisia, and participation rates in tertiary education exceed 25 percent in Egypt, Jordan, Lebanon, and Tunisia. Yet, entrepreneurs regularly cite the lack of suitable skills as an important constraint to hiring (Figure 3), and unemployment rates are highest among the most educated. Taken together, this suggests that education systems in the region fail to produce graduates with needed skills.

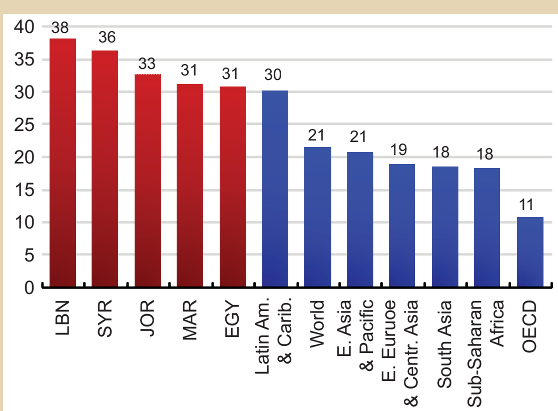
Labor market rigidities. According to the latest Global Competitiveness Report, hiring and firing regulations in most MENA6 countries are more restrictive than those in the average emerging and developing country. Moreover, data from enterprise surveys indicate that, worldwide, the percent of firms identifying labor regulation as a major constraint to their business operations is, on average, greatest in the MENA6 (Figure 4). Such rigidities limit employment creation by discouraging firms from expanding employment in response to favorable changes in the economic climate.

Large public sectors. In the MENA6, the public sector has been an extraordinarily important source of employment. Around the turn of this century, the public sector accounted for about one-third of total employment in Syria, 22 percent in Tunisia, and about 35 percent in Jordan and Egypt. Public-sector employment shares are

Figure 3

Firms Identifying Labor Skill Level as a Major Constraint

(Most recent; percent)

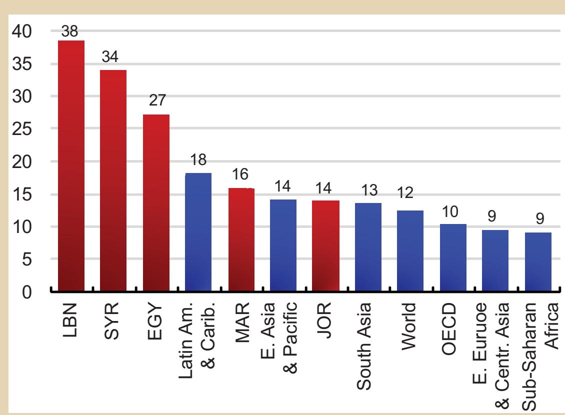


Source: World Bank, Enterprise Survey Results.

Figure 4

Firms Identifying Labor Regulations as a Major Constraint

(Most recent; percent)



Source: World Bank, Enterprise Survey Results.

even higher as a percentage of nonagricultural employment—reaching 42 percent in Jordan and 70 percent in Egypt. The dominant role of the public sector as employer throughout the MENA6 has distorted labor market outcomes and diverted resources away from a potentially more dynamic private sector. Government hiring practices have typically inflated wage expectations and placed a premium on diplomas over actual skills, influencing educational choices and contributing to skill mismatches.

High reservation wages. The comparatively greater job security, higher wages, and more generous non-wage benefits offered by the public sector have inflated wage expectations among new entrants. In fact, public sector wages are 48 percent and 36 percent higher than those offered by the private sector in Egypt and Tunisia, respectively. New entrants' capacity to withstand long periods of unemployment—in anticipation of securing more lucrative opportunities in the public sector—is buoyed by familial support and remittances from abroad. The latter is consistent with the positive correlation observed between unemployment rates and remittances in the MENA6 countries.

What can policymakers do?

Reduce skill mismatches. Education systems will need to focus more on quality, and curriculums should be realigned with the demands of labor markets. Programs to upgrade skills of the currently unemployed would make them more employable. Private-sector involvement in the process will be critical to identifying the needed skills, and government hiring procedures can place greater emphasis on skills and competition and less on paper qualifications.

Improve the business environment. By further liberalizing external trade and opening up domestic markets, MENA6 countries could boost output growth and labor demand. Reforms aimed at creating a business climate more conducive to investment and competition are key to unlocking the region's employment potential.

Reduce labor market rigidities. More flexible labor market regulations, along with effective social safety nets, would help enable the private sector respond effectively to market signals. Moreover, to strengthen the link between compensation and productivity, adjustments in government pay scales will be needed within a framework of overall wage restraint.

Selected Economic Indicators: MENAP Oil Importers

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
Real GDP Growth	**4.4**	**6.3**	**6.0**	**4.9**	**4.6**	**5.0**	**4.4**
(Annual change; percent)							
Afghanistan, Rep. of	...	8.2	14.2	3.4	22.5	8.9	6.8
Djibouti	2.4	4.8	5.1	5.8	5.0	4.5	5.4
Egypt	4.0	6.8	7.1	7.2	4.7	5.3	5.5
Jordan	6.0	7.9	8.5	7.6	2.3	3.4	4.2
Lebanon	3.4	0.6	7.5	9.3	9.0	8.0	5.0
Mauritania	3.7	11.4	1.0	3.7	-1.1	4.7	5.1
Morocco	4.4	7.8	2.7	5.6	4.9	4.0	4.3
Pakistan	4.9	6.1	5.6	1.6	3.4	4.8	2.8
Syria	3.5	5.1	4.3	5.2	4.0	5.0	5.5
Tunisia	4.4	5.7	6.3	4.5	3.1	3.8	4.8
Consumer Price Inflation	**4.1**	**7.1**	**7.0**	**16.1**	**8.8**	**9.3**	**7.7**
(Year average; percent)							
Afghanistan, Rep. of	...	7.2	8.6	30.5	-8.3	-2.9	3.2
Djibouti	2.0	3.5	5.0	12.0	1.7	3.9	4.0
Egypt	4.7	7.6	9.5	18.3	11.7	10.9	9.5
Jordan	2.1	6.3	4.7	13.9	-0.7	5.5	5.0
Lebanon	0.5	5.6	4.1	10.8	1.2	5.0	3.5
Mauritania	7.9	6.2	7.3	7.3	2.2	6.1	5.2
Morocco	1.5	3.3	2.0	3.9	1.0	1.5	2.2
Pakistan	5.0	7.9	7.6	20.3	13.6	13.8	10.2
Syria	2.7	10.4	4.7	15.2	2.8	5.0	5.0
Tunisia	2.7	4.1	3.4	4.9	3.5	4.5	3.5
General Government Fiscal Balance	**-4.7**	**-5.1**	**-4.9**	**-5.7**	**-5.4**	**-6.3**	**-5.1**
(Percent of GDP)							
Afghanistan, Rep. of	...	-2.9	-1.8	-3.7	-1.2	-0.9	-1.3
Djibouti	-1.8	-2.5	-2.6	1.3	-4.9	-0.5	0.0
Egypt	-6.4	-9.2	-7.5	-7.8	-7.0	-8.2	-7.6
Jordan	-3.1	-3.4	-5.5	-5.4	-8.5	-6.3	-5.5
Lebanon	-15.3	-10.4	-10.8	-9.6	-8.1	-8.7	-9.6
Mauritania[1]	-6.6	35.8	-1.6	-6.5	-5.1	-4.5	-4.0
Morocco[2]	-5.2	-1.8	0.3	1.5	-2.1	-4.5	-3.6
Pakistan	-2.7	-3.7	-4.0	-7.3	-5.2	-6.0	-3.6
Syria	-2.1	-1.1	-4.0	-2.8	-5.4	-4.3	-3.1
Tunisia	-2.6	-2.9	-2.8	-0.7	-2.6	-2.8	-2.6
Current Account Balance	**-0.4**	**-1.6**	**-2.4**	**-4.7**	**-4.4**	**-3.5**	**-3.6**
(Percent of GDP)							
Afghanistan, Rep. of	...	-4.9	0.9	-0.9	-1.8	0.6	-0.4
Djibouti	-2.4	-14.7	-24.9	-27.6	-17.3	-14.3	-18.0
Egypt	1.6	1.6	1.9	0.5	-2.4	-2.0	-1.6
Jordan	0.0	-11.0	-16.9	-9.6	-5.0	-7.2	-8.5
Lebanon	-15.2	-5.3	-6.8	-9.3	-9.5	-11.1	-11.2
Mauritania	-18.8	-1.3	-18.3	-15.7	-12.5	-7.6	-8.7
Morocco	2.2	2.2	-0.1	-5.2	-5.0	-5.3	-4.9
Pakistan	1.6	-3.9	-4.8	-8.5	-5.7	-2.0	-3.1
Syria	-1.3	-1.8	-2.2	-3.6	-4.5	-3.9	-3.4
Tunisia	-3.0	-1.8	-2.4	-3.8	-2.8	-4.4	-4.1

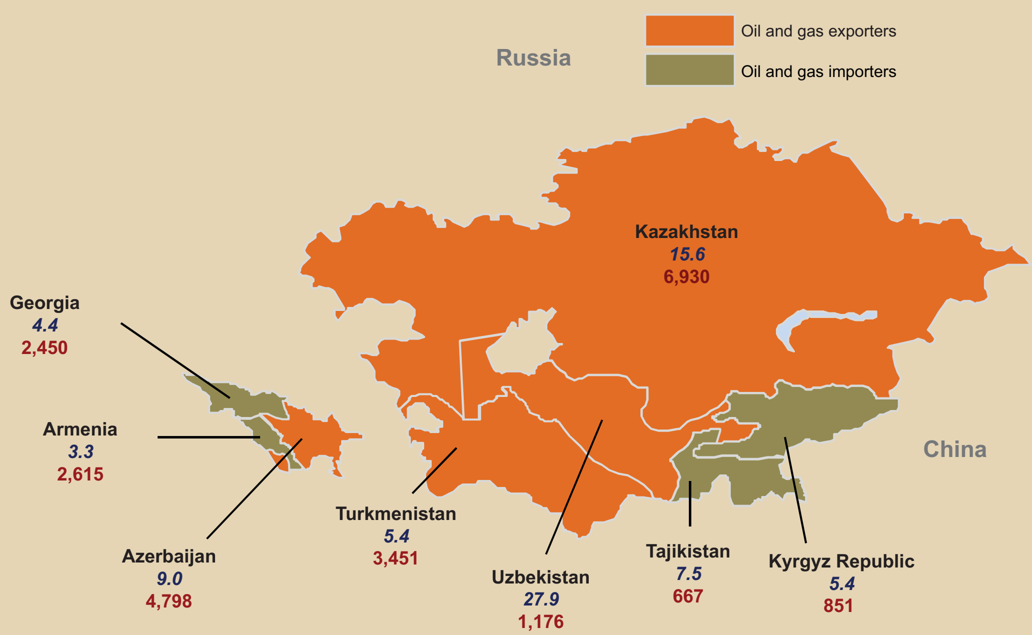
Sources: National authorities; and IMF staff estimates and projections.
[1]Includes oil revenue transferred to the oil fund.
[2]Central government.

3. The Caucasus and Central Asia: Challenges Beyond the Crisis[1]

At a Glance

In virtually all countries in the Caucasus and Central Asia (CCA), the recovery, helped by the lagged effect of fiscal stimulus and a favorable external environment, has gained firm momentum. The outlook is broadly positive, but risks are largely on the downside and, in certain countries, it will take some time for per-capita disposable income to return to pre-2009 levels. Exit from fiscal stimulus has commenced in most CCA countries and will continue in 2011. Banking sector balance sheets remain impaired in several countries, including Kazakhstan, requiring continued policy attention. Some oil and gas importers face large current account deficits and rising external debt levels that need to be reined in to preserve external sustainability. To expand the macroeconomic policy tool kit, the effectiveness of monetary policy will need to be enhanced. Gradually moving toward greater exchange rate flexibility would help in this regard. The recent spike in international wheat prices is likely to adversely affect poor households that rely on wheat-related products. Over the medium term, removing barriers to intraregional trade will help raise the region's growth potential.

Population, millions (2009)
GDP per capita, U.S. dollars (2009)



Sources: IMF, Regional Economic Outlook database; and Microsoft Map Land.
Note: The country names and borders on this map do not necessarily reflect the IMF's official position.

[1] Prepared by Yasser Abdih with input from country teams.

Recovery Gains Traction

CCA countries were hit hard by the global crisis in 2009. But the recovery, supported by the lagged effect of fiscal stimulus and a favorable external environment, is gathering momentum across the CCA. The upswing in Russia is helping the region, particularly the oil and gas importers, through trade and remittance channels (Box 3.1). The oil and gas exporters are also benefiting from higher hydrocarbon prices.

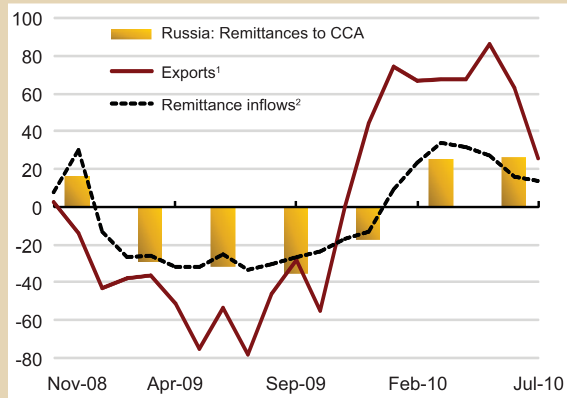
Exports are picking up, and remittances are rebounding, though at a slowing pace. After bottoming out around mid-2009, export growth turned positive again across the region in early 2010 and peaked in May at more than 80 percent year-over-year in Azerbaijan and Kazakhstan. More recently, export growth has moderated, but remains robust (Figure 3.1). With Russia's economy returning to growth—at an estimated 4 percent in 2010—CCA remittance inflows are also recovering, having grown by 26 percent during the first half of 2010 relative to the same period in 2009.

In light of these developments, virtually all CCA economies are seeing a recovery in growth in 2010 (Figure 3.2). Growth is expected to be strongest among the oil and gas exporters, with projections ranging from 4.3 percent in Azerbaijan and 5.4 percent in Kazakhstan, to 8 percent in Uzbekistan and 9.4 percent in Turkmenistan. Among the oil and gas importers, Armenia and Georgia are rebounding from negative growth in 2009 and are projected to grow at 4 percent and 5.5 percent in 2010, respectively. In Tajikistan, growth is estimated at 5.5 percent for 2010—about 2 percentage points higher than in 2009. In the

Figure 3.1

Exports and Remittances Pick Up

(Exports of goods and remittances; annual growth; percent)

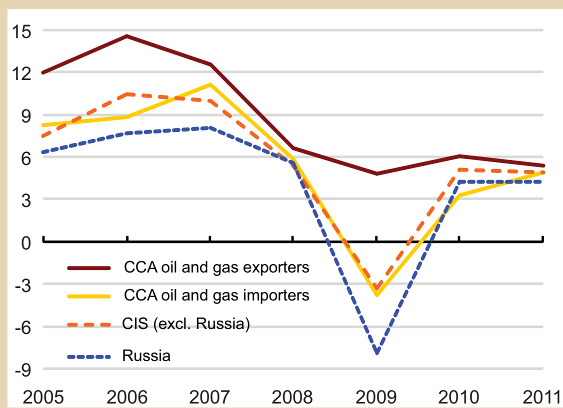


Sources: Central Bank of Russia; EMED Emerging CIS; and national authorities.
[1]Excludes Turkmenistan and Uzbekistan.
[2]Includes Georgia, Kyrgyz Republic, and Tajikistan.

Figure 3.2

Growth Gains Ground, but Remains below Precrisis Levels

(Real GDP; annual percentage growth)



Sources: National authorities; IMF, *World Economic Outlook*; and IMF staff projections and calculations.

Box 3.1

Russia Recovers

After contracting by some 8 percent in 2009, the Russian economy is recovering, driven by high oil prices and strengthening consumption. The recent heat wave and drought dampened economic activity, but the effect is likely to be short-lived and contained. For 2010, growth is projected at 4 percent. Over the medium term, growth is projected to remain at about 4 percent, slower than before the global financial crisis. The pickup in Russia should benefit CCA countries, mainly through trade and remittance channels. However, Russian construction sector activity—which traditionally has been a source of employment for migrant workers from the CCA—remains subdued and may constrain remittance flows to the region.

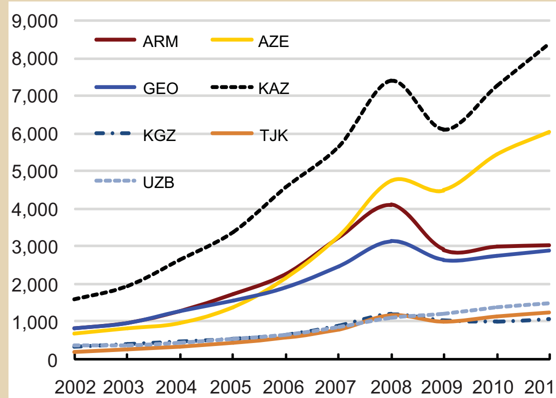
Kyrgyz Republic, however, the political events in April and ethnic conflict in June are weighing heavily on the outlook, and economic activity is expected to shrink by 3.5 percent in 2010 (Box 3.2). Despite the rebound in growth in 2010, disposable incomes have not yet recovered to precrisis levels in many CCA countries (Figure 3.3).

The outlook for 2011 is generally positive. With oil prices foreseen to remain near US$80 per barrel in 2011, CCA oil and gas exporters should see broadly similar growth rates to those in 2010. Armenia, Georgia, and Tajikistan are projected to grow at 4–5 percent, benefiting from Russia's anticipated recovery. In the Kyrgyz Republic, economic growth is expected to recover in 2011, to 7 percent. On balance, however, growth rates for most CCA countries remain below precrisis levels.

Figure 3.3

Disposable Income Has Not Yet Recovered in Many Countries

(Gross national disposable income per capita; U.S. dollars)



Sources: IMF, *World Economic Outlook;* and IMF staff calculations and projections.

Box 3.2

Political and Ethnic Turmoil Leaves its Mark on the Kyrgyz Economy

The near-term economic outlook for the Kyrgyz Republic changed for the worse after the political turmoil in April 2010 and the ethnic conflict that followed in June. Instead of an expected recovery, economic activity is now projected to contract by about 3½ percent in 2010, driven by shrinking trade and agricultural production, as well as subdued confidence arising from continuing insecurity. As a result, the overall fiscal deficit is set to widen in 2010 by 8 percentage points to 12 percent of GDP—reflecting massive increases in critical crisis-related spending, including rehabilitation of damaged infrastructure and bank recapitalization. Donors have pledged more than US$1 billion over a 30-month period—for reconstruction, rehabilitation and resettlement, particularly in the south—which includes budgetary support, sufficient to meet most of the government's financing needs in 2010. Exchange rate pressures also heightened during the political unrest, but the central bank intervened successfully to smooth volatility and avoid overshooting.

Inflation rates across the region have come down and are forecast to stay below 8 percent in 2010—much lower than their precrisis levels. An exception is Uzbekistan, where inflation is expected to remain high, at 11 percent. Continued fiscal stimulus, combined with an accommodative monetary stance and directed lending, give rise to the risk of a further buildup in inflationary pressures—a risk that Turkmenistan also faces. The recent increase in international wheat prices could also put some upward pressure on headline inflation in the region, to the extent that higher international prices are passed through to domestic consumers (Box 3.3).

In line with the global picture, risks to the outlook are largely on the downside. In particular, a weaker-than-expected recovery in Russia would adversely affect trade and remittance flows to the region. A double-dip recession in the United States and a weaker-than-expected recovery in Europe would also weaken economic activity in the region, primarily through a drop in demand for oil and gas. Another risk pertains to the extent of recovery in foreign direct investment inflows, which have failed to recover fully in some countries, particularly Georgia. In Central Asia, continued political tensions are affecting energy trade and transport, with adverse implications for economic activity. Closer cooperation on energy trade and water sharing, and improved regional

Box 3.3

Wheat Price Woes?

Most CCA countries rely only moderately on wheat imports. The recent 85 percent increase in international wheat prices (in the two months up to mid-August) is therefore unlikely to have much of an impact on the region's import bill. An exception is Tajikistan, which could face higher import costs of more than ½ percent of GDP during the remainder of 2010. Kazakhstan—a net exporter of wheat—stands to gain, with export receipts potentially increasing by up to 0.3 percent of GDP.

Government spending is not expected to increase on account of higher wheat prices, given that food and wheat-related subsidies are not prevalent in the CCA region. However, the Kyrgyz Republic has responded by reducing import duties on some wheat products, although this is not expected to result in a significant loss in government revenues. To the extent that international prices are passed on to domestic consumers, headline inflation could also pick up in countries where wheat comprises a large share of consumption—in Armenia, Georgia, Kyrgyz Republic, Tajikistan, and Uzbekistan, wheat and wheat-related products account for 10–20 percent of the consumer price index basket. Certainly, poor households that rely heavily on wheat and wheat-related products in their daily lives will bear the brunt of any price increase. Here, there may be a need to scale up government support for low-income households. Some governments are using moral suasion to entice wheat importers to absorb the higher international prices and keep domestic prices stable.

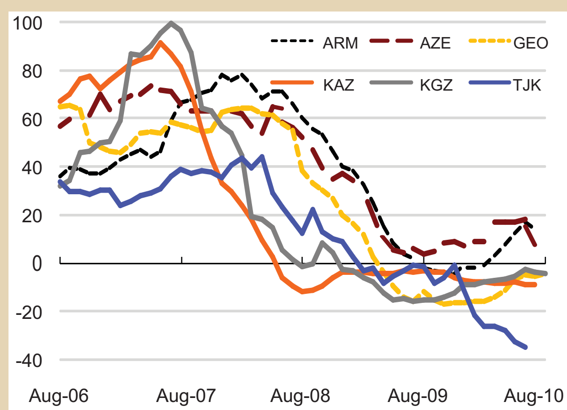
infrastructure would enhance intraregional trade and, hence, foster growth. In this context, the recent Belarus-Kazakhstan-Russia customs union may dampen exports of some CCA countries, although Kazakhstan itself is likely to benefit (Box 3.4). Finally, in a number of countries, continued banking sector vulnerabilities could hold back credit growth and weigh on the economic outlook.

Banking Sectors Are Not Out of the Woods, Yet

Banking sectors in many CCA countries have not yet recovered from the impact of the 2008/09 crisis, and credit remains subdued, notwithstanding supportive policy measures. Policymakers have provided capital and liquidity injections to help banks repair their balance sheets, and in some countries—notably Armenia, Azerbaijan, and Georgia—banking systems appear to have stabilized, although private-sector credit growth is only gradually beginning to rebound (Figure 3.4).

In other countries, however, balance sheets remain impaired, particularly in Kazakhstan, the Kyrgyz Republic, and Tajikistan. In these countries, comprehensive and transparent resolution strategies to tackle high and rising nonperforming loans (NPLs) would contribute to a recovery in credit growth, although the combination of heightened risk aversion by banks and, in some cases, ongoing deleveraging of private-sector balance sheets is likely to adversely affect lending for some time. Stricter lending standards, combined with increased competition among borrowers and lenders, would help prevent a recurrence of the NPL problem.

Figure 3.4
Private-Sector Credit Growth Remains Largely Subdued
(Real credit;[1] annual percentage growth)



Sources: IMF, *International Financial Statistics*; and IMF staff calculations.
[1]Real credit, exchange rate adjusted.

Box 3.4

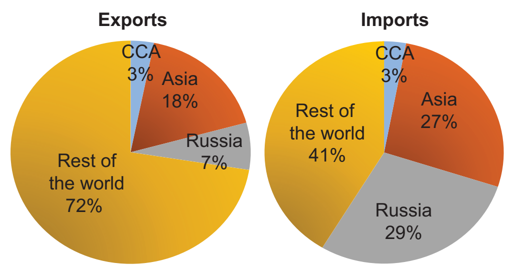
The Impact of the Belarus–Kazakhstan–Russian Federation Customs Union

In November 2009, the governments of Belarus, Kazakhstan, and Russia signed an agreement to create a customs union as a first step to a single economic space by 2012.[1] This new arrangement is intended to maximize the benefits of the already strong trade relationship and an enlarged market. The agreement came into force in January 2010, when the three countries eliminated most duties on mutual trade, and moved to harmonize customs rules. In July 2010, member countries adopted a common customs code, finalized customs rules, and began to redistribute collected duties.

Russia is a key trading partner of Kazakhstan (Figure 1), accounting for about 20 percent of total trade. The customs union will allow Kazakhstan to benefit from greater access to the large Russian market and the eventual free movement of labor and capital. In particular, agricultural and commodity exports should benefit from the removal of customs duties. At the same time, the potential increase in these exports, and the possible exposure of the manufacturing sector to competition from more established Russian companies, could affect Kazakhstan's plans for economic diversification. In addition, trade diversion may arise as Kazakhstan's import tariffs on most goods from outside the union have increased to the levels of Russia.[2] But higher tariffs are likely to provide a boost to fiscal revenues through Kazakhstan's share of customs duties—the authorities expect an additional 0.3 percent of GDP in revenues in 2010—and, all in all, the customs union is likely to have a positive impact on growth in Kazakhstan.

Figure 1

Kazakhstan: Structure of Exports and Imports by Region, 2009

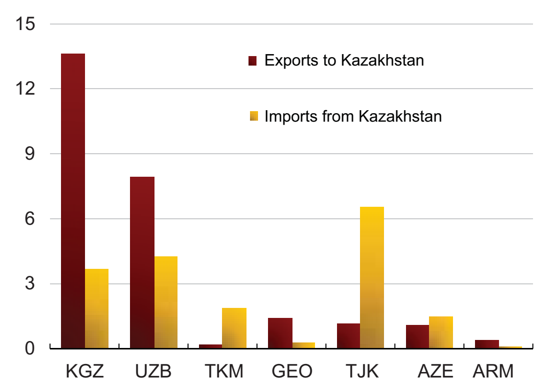


Sources: IMF, *Direction of Trade Statistics*; and IMF staff calculations.

Figure 2

CCA Countries' Trade with Kazakhstan

(Percent of the country's total exports and imports, 2009)



Sources: IMF, *Direction of Trade Statistics*; and IMF staff calculations.

The impact of the customs union on other CCA countries is expected to be limited. With higher import tariffs, Kazakhstani importers may switch from suppliers in other CCA countries to suppliers within the customs union. Kazakhstan currently accounts for about 14 percent of total exports from the Kyrgyz Republic and 8 percent from Uzbekistan, but less than 1½ percent of total exports from other CCA countries (Figure 2). Although part of these exports will likely fall under the temporary exemption from increased customs duty, a trade diversion effect could be expected in the long term. A decline in trade flows between CCA countries and Russia is not anticipated, since import tariffs in Russia have remained practically unchanged.

In addition, the Kyrgyz authorities have expressed concern about a potential adverse impact of the customs union on transit trade. In recent years, the Kyrgyz Republic has played an important trade intermediary role for Chinese goods bound for markets in the former Soviet Union: a more restrictive customs administration on the Kyrgyz-Kazakhstani border may restrain the re-export of Chinese products to the Commonwealth of Independent States.

The authors are Ali Al-Eyd and Dmitriy Rozhkov.

[1] A single economic space provides for the free movement of all factors of production and sets the basis for coordination of macroeconomic policies across member states.

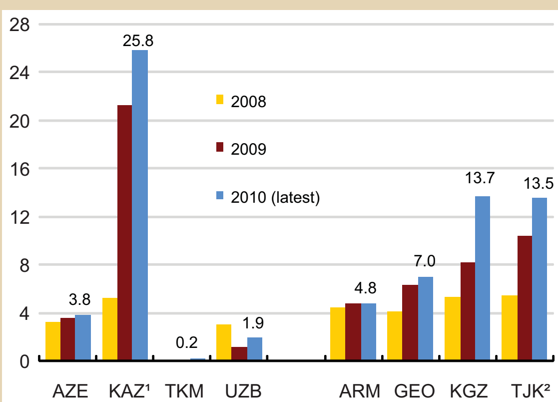
[2] Kazakhstan has obtained a temporary exemption from raising customs duties on goods deemed to be strategically important for the country; these exemptions are expected to be eliminated by July 2011.

- In Kazakhstan, high and rising NPLs—currently at 26 percent of total loans—are exerting pressure on provisioning levels and weighing on banks' capital and ability to lend (Figure 3.5). Indeed, real credit growth remains negative. With activity in the real estate and construction sectors—to which banks have their largest exposure—continuing to shrink, it is unlikely that NPLs will recede quickly, even as the rest of the economy recovers. If the problem of high NPLs stays unresolved, banking sector balance sheets will remain under pressure, and additional contingent fiscal liabilities could arise.
- Banking sectors in the Kyrgyz Republic and Tajikistan are also suffering from high and rising NPLs, and private-sector credit growth is subdued. In the Kyrgyz Republic, NPLs increased in the wake of the events of April and June and also because of banks' exposure to borrowers affected by the conflict in the south. Credit is expected to continue to shrink in real terms during the second half of 2010 owing to weak demand—driven by the decline in economic activity—and the emerging problems in the banking sector. In Tajikistan, NPLs have increased most notably among state enterprises, the agricultural sector, and leasing activity—partly as a result of poor lending standards and directed lending—and have weakened banks' balance sheets. Continued public support, including bank recapitalization, is needed to help the banking sector repair its balance sheets. However, a long-term solution will also require subjecting state enterprises to greater financial discipline.

Figure 3.5

High, and Mostly Rising Levels of Nonperforming Loans

(Nonperforming loans; percent of total loans)



Source: National authorities.

[1]90-day basis.

[2]Overdue by 30 days or more.

Banking sectors in Turkmenistan and Uzbekistan, by and large, have not been affected by the global crisis on account of their limited integration with global financial markets. Moreover, in both countries, overall credit—the bulk of which was in the form of policy-directed loans—continued to grow during the crisis.

Macroeconomic Policies as Recovery Gathers Momentum

With growth recovering from the 2009 trough, countries across the CCA can start exiting from accommodative policies. Here, as in many other regions, the authorities should first exit from fiscal stimulus, also in light of fiscal sustainability considerations.

Monetary policy can remain accommodative for some time, not least because banking sectors in many countries remain impaired. At the same time, the authorities need to pay close attention to inflation developments and prevent an increase in inflation expectations. A key challenge facing some CCA oil and gas importers is to reduce external vulnerabilities. Macroeconomic policy needs to rein in current account deficits and reverse the recent buildup of external debt. Additional exchange rate flexibility should help in this regard.

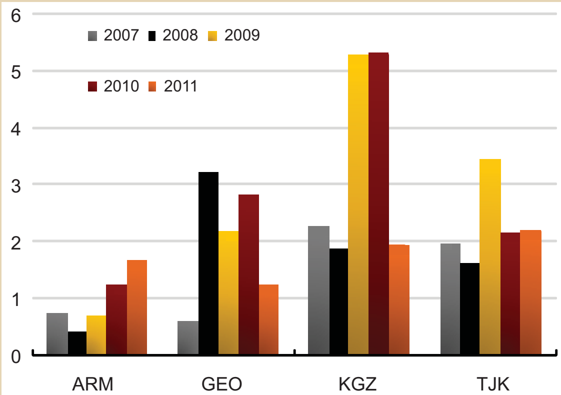
Fiscal Policy Should Aim for Consolidation in 2011

The oil and gas importers face shrinking fiscal space. Donor support is, for the most part, projected to decline to precrisis levels by 2011, and public debt is rising, driven largely by the policy response to the crisis (Figures 3.6 and 3.7). As such, most oil and gas importers are planning to consolidate in 2011 to preserve medium-term fiscal sustainability.

Figure 3.6

Grants to Return to Precrisis Levels in Oil and Gas Importers

(Grants; percent of GDP)

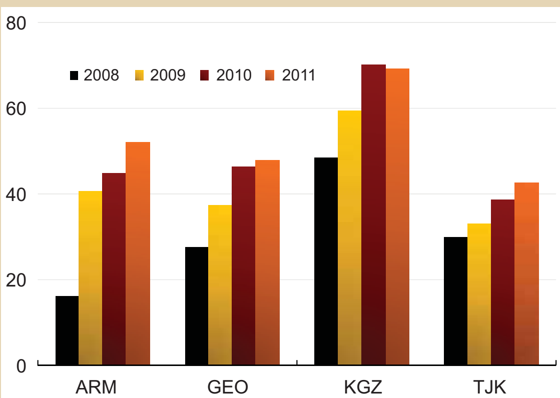


Sources: National authorities; and IMF staff calculations.

Figure 3.7

Public Debt Has Risen in Oil and Gas Importers

(Public debt; percent of GDP)



Sources: National authorities; and IMF staff calculations and projections.

- Armenia is planning to undertake a marked fiscal adjustment under an IMF-supported program (Figure 3.8). The fiscal deficit is expected to be scaled back by 3 percentage points of GDP in 2010, and further deficit reductions of about 1 percentage point of GDP per year are planned for 2011–13. This scale-back will be achieved partly through enhanced revenue collection, enabled by improved tax administration. Spending should also be restrained and better targeted, but allow for sufficient allocations for social and capital spending.

- Georgia is also consolidating through various measures, including expenditure containment and new excise taxes. The budget deficit is projected to decline to 6.1 percent of GDP in 2010 from 9.2 percent of GDP in 2009, with a possible further reduction of about 1½ percentage points of GDP in 2011.

- In Tajikistan, given pressing social and development needs, as well as the cost of recapitalizing the banking system, the fiscal stance in 2011 is expected to remain broadly neutral.

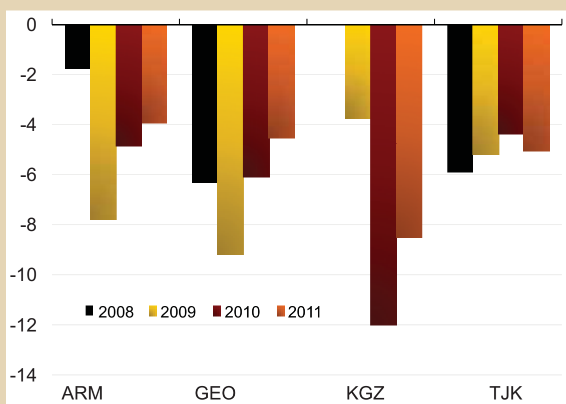
- In the Kyrgyz Republic, a large fiscal expansion is projected for 2010 in reaction to the economic fallout from the April and June events; fiscal consolidation will be needed starting in 2011.

While lack of fiscal space is not an immediate issue, the CCA oil and gas exporters also should aim for fiscal consolidation, given their positive growth outlook. For example, in Kazakhstan, the authorities plan to gradually withdraw fiscal stimulus—including off-budget funds—in line with the anticipated recovery in economic activity (Figure 3.9). Azerbaijan is maintaining a broadly neutral stance in 2010, and fiscal consolidation is projected for 2011. However, in Turkmenistan and Uzbekistan, despite the strong growth forecast, the fiscal stance remains expansionary in 2010. For 2011, Turkmenistan

Figure 3.8

Trimming Down Deficits in Oil and Gas Importers

(Fiscal balance; percent of GDP)

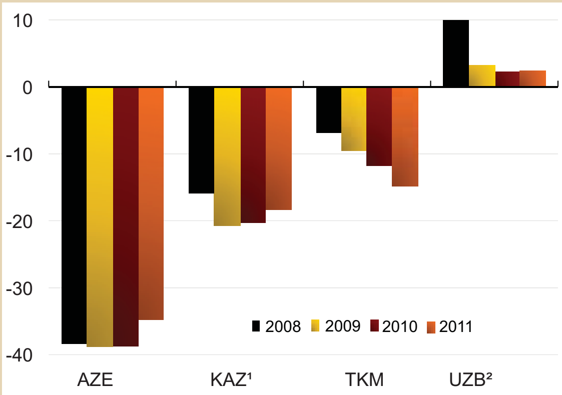


Sources: National authorities; and IMF staff calculations and projections.

Figure 3.9

Oil and Gas Exporters: Time for Fiscal Consolidation

(Non-oil fiscal balance; percent of non-oil GDP, except Uzbekistan)



Sources: National authorities; and IMF staff calculations and projections.
[1]Includes off-budget expenditures financed by Samruk-Kazyna under the anticrisis plan.
[2]Overall fiscal balance in percent of GDP.

appears to maintain an expansionary stance, while Uzbekistan is projected to shift to a broadly neutral stance. In both countries, fiscal tightening would help prevent the likely buildup of inflationary pressures which, if materialized, could lead to real effective exchange rate appreciation and, hence, weaken competitiveness.

Over the medium term, fiscal policy in the CCA oil and gas exporters should be set with a view to safeguarding a sustainable use of hydrocarbon revenues while developing the non-oil economy. Managing hydrocarbon wealth by ensuring an efficient use of public resources remains a key challenge, particularly in Turkmenistan and Uzbekistan. In these countries, public-sector investment projects are designed to strengthen growth, but there is a need to ensure the quality and efficiency of spending. Laying the basis for high and sustained growth also requires that the authorities speed up structural reforms aimed at improving the business environment and creating more room for private-sector activity. In Azerbaijan, the authorities are seeking to foster the non-oil economy and are encouraged to reduce the non-oil fiscal deficit to ensure medium-term fiscal sustainability, especially as oil production is projected to decline over the medium term.

Monetary Policy Can Remain Accommodative, Mostly

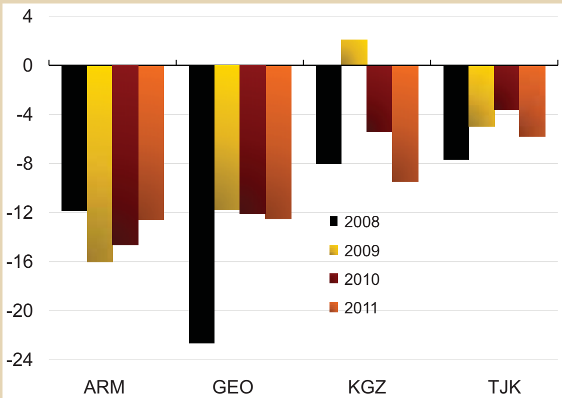
Monetary policy can remain accommodative in most CCA countries for the time being. Indeed, in some countries, nominal policy rates have remained unchanged—for example, in Azerbaijan and Kazakhstan since May and September 2009, respectively—and are not expected to be increased in the near future. This stance should help stimulate fledgling private credit growth while banks repair their balance sheets. At the same time, the Central Bank of Armenia raised its policy rate in five successive steps from 5 percent to 7¼ percent during the first five months of 2010 in an effort to keep real rates positive as inflation nudged up. Likewise, in Georgia, the authorities have continued to tighten monetary policy in response to rising inflation.

Having said this, it is important to note that monetary policy has only limited traction in most CCA countries, due to low levels of financial sector development, imperfectly competitive banking systems, excessive government intervention, and high dollarization levels (Annex 3.1). As such, policymakers have rightly embarked on reforms to foster financial deepening—including those aimed at developing government securities markets—in an effort to enhance the effectiveness of monetary policy. Allowing for more competition in the banking sector and avoiding unnecessary government intervention should help in this regard. Lastly, countries should also promote dedollarization, including by allowing for greater two-way exchange rate flexibility.

Addressing External Vulnerabilities

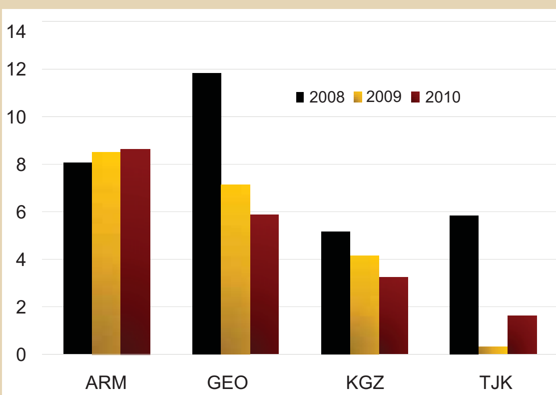
Current account deficits remain elevated in several CCA oil and gas importers, reaching up to 12 percent and 14.6 percent of GDP in Georgia and Armenia, respectively, in 2010 (Figure 3.10). In virtually all countries, foreign direct investment inflows have not yet recovered relative to precrisis levels, and external debt is high and rising—currently ranging from about 38 percent to 67 percent of GDP (Figures 3.11 and 3.12).

Figure 3.10
High Current Account Deficits in Oil and Gas Importers
(Current account balance; percent of GDP)



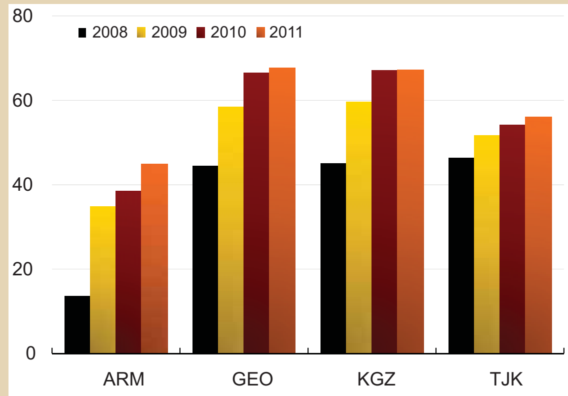
Sources: National authorities; and IMF staff calculations and projections.

Figure 3.11
Foreign Direct Investment Still in Short Supply in Oil and Gas Importers
(Net foreign direct investment; percent of GDP)



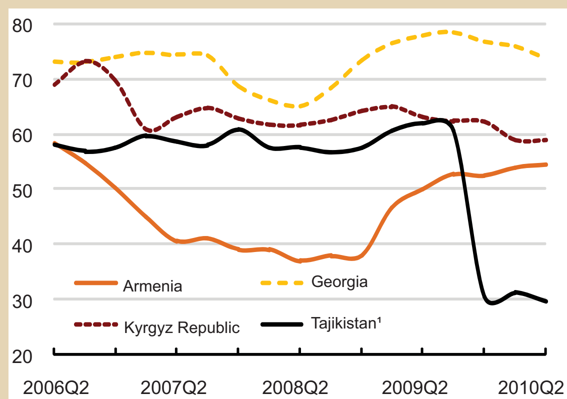
Sources: National authorities; and IMF staff calculations.

Figure 3.12
Oil and Gas Importers' External Debt Is High and Rising
(External debt; percent of GDP)



Sources: National authorities; and IMF staff calculations and projections.

Figure 3.13
High Levels of Dollarization
(Foreign currency loans; percent of total loans)



Sources: IMF, *International Financial Statistics*; and EMED Emerging CIS.
[1]Loan reclassification explains the large drop in Tajikistan's foreign currency loans at end-2009.

Therefore, in the future, policy needs to increasingly focus on reining in current account deficits to help preserve external sustainability. In Armenia, sustaining fiscal consolidation, stepping up structural reforms aimed at boosting competitiveness, and allowing for greater exchange rate flexibility will help in that regard. In Georgia, continued exchange rate flexibility is also key to achieving external sustainability. There—as in a number of other CCA countries—exchange rate policy needs to carefully balance external and financial-sector stability. Allowing for exchange rate depreciation will, on the one hand, facilitate external adjustment. On the other hand, a large depreciation may endanger the stability of the banking system, which remains highly dollarized and thereby exposed to substantial currency risk (Figure 3.13). Therefore, countries should follow a gradual approach in allowing for greater exchange rate flexibility and, at the same time, continue to strengthen prudential regulations to limit exposure to foreign-currency risk.

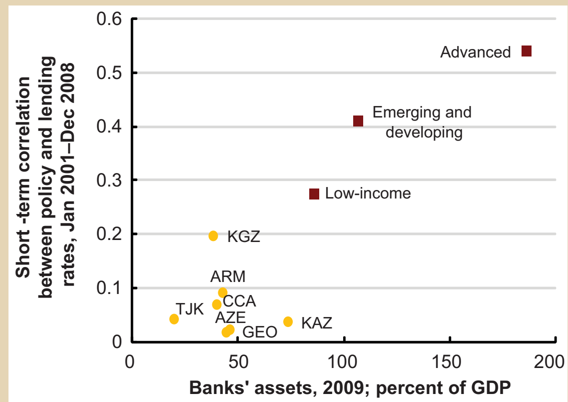
Annex 3.1. Strengthening Monetary Transmission in the CCA

A lack of monetary policy traction in the CCA during the 2009 crisis and the authorities' general interest in moving toward greater exchange rate flexibility have brought renewed urgency to strengthening the monetary transmission mechanism (MTM)—the mechanism by which monetary policy affects real economic activity and prices. To that end, countries in the region should deepen financial markets, increase competition in the banking sector, avoid unnecessary government intervention, allow for more exchange rate flexibility, and promote dedollarization. Together with other development partners, the IMF is providing technical assistance in many of these areas.

The MTM tends to be significantly weaker in low-income countries than in advanced and emerging market economies, and is even weaker in the CCA.[1] For instance, the short-term correlation between policy rates and lending rates in CCA countries is markedly lower than in other regions, indicating that the monetary authorities' ability to affect interest rate–sensitive components of aggregate demand is relatively weak. In addition, the size of CCA banking systems, as measured by total bank assets to GDP, is much smaller than in other regions (with the exception of Kazakhstan), thus reducing the leverage of monetary policy in general (Figure 1).

Figure 1

Weak Monetary Transmission in the CCA



Sources: National authorites; IMF staff calculations; and Mishra, Montiel, and Spilimbergo (2010), "Monetary Transmission in Low-Income Countries," CEPR Discussion Paper No. 7951 (London: Centre for Economic Policy Research).
[1]Correlation for Georgia covers Mar 2007–Dec 2008.

What are the impediments to effective monetary transmission in the CCA?

Limited financial development and weak regulation: CCA countries have small banking systems and, in most cases, lack deep and liquid money and interbank markets. As a result, chronic excess liquidity accumulates in the banking system and reduces the effectiveness of monetary policy. Furthermore, underdeveloped government securities markets diminish the scope of open market operations and restrict the operation of monetary policy mostly to the use of direct central bank credit. Finally, weak regulation contributes to high spreads between lending and deposit rates (Figure 2) by increasing the cost of bank lending (for example, by making it difficult for banks to enforce contracts or recover collateral), as does overregulation (for example, through excessively tight loan provisioning requirements). While regulatory quality in Armenia and Georgia is generally in line with that of emerging markets, it lags significantly behind in Turkmenistan and Uzbekistan (Figure 3).

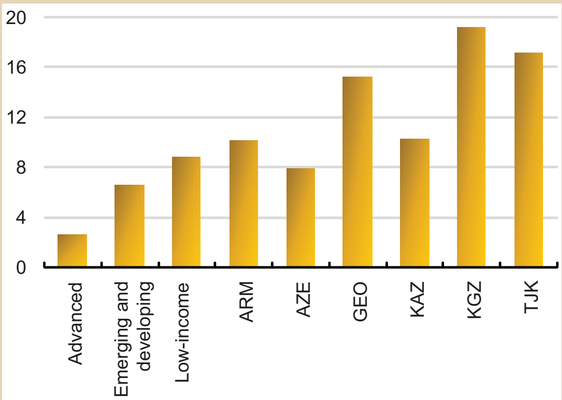
Market concentration and excessive government intervention: Given their still incomplete transition from centrally planned to market economies, many CCA banking sectors are characterized by high degrees of market concentration and government intervention. This reduces the pass-through of changes in policy rates—particularly rate cuts—to lending rates, and

The authors are Nienke Oomes, Anke Weber, and Niklas Westelius.
[1] Mishra, P., P. Montiel, and A. Spilimbergo, 2010, "Monetary Transmission in Low-Income Countries," CEPR Discussion Paper No. 7951 (London: Centre for Economic Policy Research).

Figure 2

Spreads between Lending and Deposit Rates

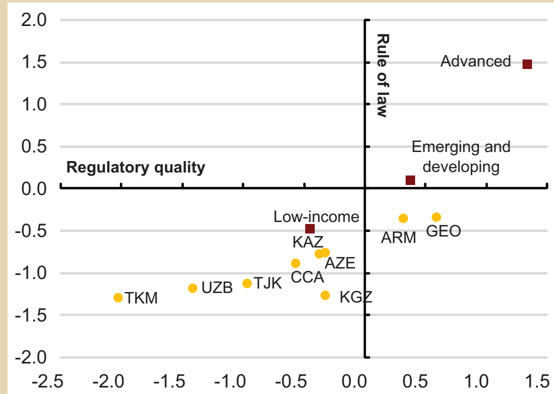
(Percentage points)



Sources: National authorities; IMF staff calculations; and Mishra, Montiel, and Spilimbergo (2010), "Monetary Transmission in Low-Income Countries," CEPR Discussion Paper No. 7951 (London: Centre for Economic Policy Research).

Figure 3

Regulatory Quality and Rule of Law, 2008[1]



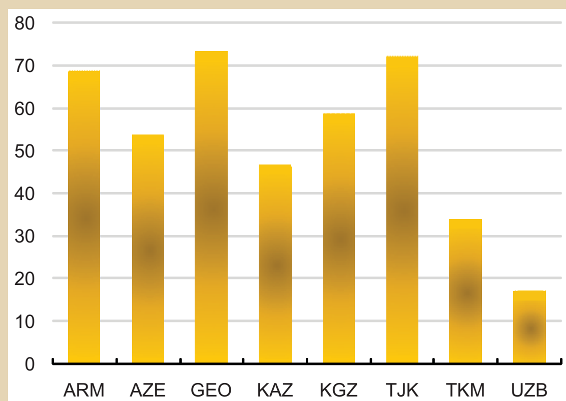
Sources: National authorities; IMF staff calculations; and Kaufmann, Kraay, and Mastruzzi (2009), "Governance matters VIII: aggregate and individual governance indicators 1996–2008," Policy Research Working Paper Series 4978, The World Bank.

[1]Indices; higher values indicate better outcomes.

Figure 4

Foreign Currency Deposits

(Percent of total deposits, 2009)



Sources: National authorities; and IMF staff calculations.

contributes to high spreads. One reason for the lack of competition—in, for instance, Azerbaijan, Turkmenistan, and Uzbekistan—is the high market share of public banks, which operate under implicit or explicit government guarantees and hold a favorable position in providing services to the public sector. In Turkmenistan and Uzbekistan, private banks are also constrained by interest rate controls and policy-directed lending.

Dollarization and fear of floating: Due to their experience with high inflation and often unsuccessful attempts by central banks to resist currency depreciation, dollarization in CCA countries remains high, especially in Armenia, Georgia, and Tajikistan (Figure 4). These high levels of dollarization dilute the effectiveness of the interest rate channel of monetary policy: central banks have little control over foreign currency interest rates and can in principle only affect the (reduced) share of domestic currency assets and liabilities. In addition, dollarization tends to make domestic money demand more volatile, as it becomes a function of expected depreciation, thereby making it difficult for central banks to target monetary aggregates. Furthermore, dollarization often gives rise to "fear of floating" so as to prevent negative balance sheet effects arising from exchange rate movements. This constrains CCA countries in their attempts to move toward more exchange rate flexibility, and limits the role of the exchange rate in the MTM.

How can monetary transmission in the CCA be strengthened?

Deepen financial markets. To improve the MTM, CCA countries should continue their efforts to develop efficient and liquid primary, secondary, and derivative securities markets and instruments. Measures in this area include introducing modern payment systems for interbank cash transfers; developing efficient and reliable securities settlement systems for clearing and settling repo transactions; improving liquidity management by central banks to induce interbank market participation; issuing more long-term, local currency–denominated government securities; encouraging domestic investment, for example, by pension funds; and developing sound regulatory and prudential frameworks. The IMF is providing technical assistance to CCA countries in many of these areas, financed in large part by the State Secretariat for Economic Affairs of Switzerland.

Increase competition and reduce government intervention. Competition should be increased by strengthening banking supervision, encouraging the entry of foreign banks and strategic investors, and restricting the behavior of large banks so as to avoid market domination. In this regard, it is encouraging that the Azerbaijani authorities have expressed a willingness to privatize the country's dominant state bank. While extraordinary measures were introduced during the financial crisis that temporarily increased the government's financial sector role in some countries (for example, Kazakhstan and the Kyrgyz Republic), it is important that these measures not be made permanent and that CCA governments do not rely on direct central bank credit for financing. Furthermore, interest rate controls and policy-directed lending should be phased out in Turkmenistan and Uzbekistan to improve the efficiency of credit allocation.

Dedollarize. The most effective way to achieve durable dedollarization is to establish a history of macroeconomic stability, involving low and stable inflation, coupled with sufficient two-way exchange rate flexibility.[2] The current low-inflation environment in the CCA provides an excellent opportunity to build such a track record, but also necessitates a strong and credible commitment to sound and transparent policymaking. A gradual increase in exchange rate flexibility, combined with appropriate prudential regulation, would internalize the risks of balance sheet dollarization and reduce incentives to hold foreign currency. Examples of such prudential regulation already implemented include higher loan-loss provisioning requirements for foreign currency loans (Armenia, Kazakhstan) and higher risk weights on foreign currency loans in capital requirements (Armenia, Georgia). Also, public debt management that shifts away from foreign currency denomination would further reduce concerns of exchange rate flexibility and increase the potential role of the exchange rate channel in MTM. The IMF is providing technical assistance in many of these areas, and is working with the European Bank for Reconstruction and Development on promoting local currency financing and local capital market development.

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[2] See Kokenyne, A., J. Ley, and R. Veyrune, 2010, "Dedollarization," IMF Working Paper No. 10/188, www.imf.org/external/pubs/cat/longres.cfm?sk=24139.0.

Selected Economic Indicators: CCA

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
Real GDP Growth	**9.4**	**13.7**	**12.4**	**6.5**	**3.6**	**5.7**	**5.4**
(Annual change; percent)							
Armenia	11.2	13.2	13.7	6.9	-14.2	4.0	4.6
Azerbaijan	11.3	34.5	25.0	10.8	9.3	4.3	1.8
Georgia	6.4	9.4	12.3	2.3	-3.9	5.5	4.0
Kazakhstan	10.3	10.7	8.9	3.2	1.2	5.4	5.1
Kyrgyz Republic	4.1	3.1	8.5	8.4	2.3	-3.5	7.1
Tajikistan	9.2	7.0	7.8	7.9	3.4	5.5	5.0
Turkmenistan	16.6	11.4	11.6	10.5	6.1	9.4	11.5
Uzbekistan	5.1	7.5	9.5	9.0	8.1	8.0	7.0
Consumer Price Inflation	**9.7**	**9.3**	**11.4**	**16.5**	**6.2**	**7.3**	**7.3**
(Year average; percent)							
Armenia	2.6	2.9	4.4	9.0	3.5	7.8	5.5
Azerbaijan	4.1	8.4	16.6	20.8	1.5	5.5	6.0
Georgia	5.5	9.2	9.2	10.0	1.7	6.4	7.4
Kazakhstan	8.2	8.7	10.8	17.1	7.3	7.6	6.6
Kyrgyz Republic	6.5	5.6	10.2	24.5	6.8	4.8	5.7
Tajikistan	19.1	10.0	13.2	20.4	6.5	7.0	8.0
Turkmenistan	8.4	8.2	6.3	14.5	-2.7	3.9	4.8
Uzbekistan	18.0	14.2	12.3	12.7	14.1	10.6	11.4
General Government Fiscal Balance	**0.6**	**4.2**	**3.1**	**6.3**	**0.9**	**1.2**	**1.6**
(Percent of GDP)							
Armenia[1]	-2.6	-2.0	-2.3	-1.8	-7.8	-4.8	-3.9
Azerbaijan[1]	0.2	-0.2	2.6	20.8	6.8	13.9	14.4
Georgia	-1.1	-3.0	-4.7	-6.3	-9.2	-6.1	-4.5
Kazakhstan	2.4	7.2	4.7	1.1	-1.5	-2.8	-2.0
Kyrgyz Republic	-5.6	-2.1	-0.3	0.0	-3.7	-12.0	-8.5
Tajikistan	-3.0	1.7	-6.2	-5.9	-5.2	-4.4	-5.1
Turkmenistan[2]	1.0	5.3	3.9	11.3	7.8	2.8	1.3
Uzbekistan	-0.6	5.2	5.3	10.7	3.2	2.2	2.4
Current Account Balance	**-1.6**	**3.2**	**1.6**	**9.0**	**0.8**	**5.3**	**5.2**
(Percent of GDP)							
Armenia	-6.4	-1.8	-6.4	-11.8	-16.0	-14.6	-12.6
Azerbaijan	-12.2	17.6	27.3	35.5	23.6	24.1	22.2
Georgia	-8.0	-15.1	-19.7	-22.7	-11.7	-12.0	-12.5
Kazakhstan	-1.4	-2.5	-8.1	4.6	-3.2	3.2	2.0
Kyrgyz Republic	-0.1	-3.1	-0.2	-8.1	2.1	-5.4	-9.4
Tajikistan	-3.0	-2.8	-8.6	-7.7	-4.9	-3.6	-5.7
Turkmenistan	4.1	15.7	15.5	18.7	-16.1	-4.7	3.4
Uzbekistan	3.8	9.1	7.3	8.7	2.7	3.8	6.3

Sources: National authorities; and IMF staff estimates and projections.
[1]Central government.
[2]State government.

Statistical Appendix

The IMF's Middle East and Central Asia Department (MCD) countries and territories 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, Uzbekistan, the West Bank and Gaza, and Yemen.

The following statistical appendix tables contain data for 30 MCD countries. Data revisions reflect changes in methodology and/or revisions provided by country authorities.

All data refer to the calendar years, except for the following countries, which refer to the fiscal years: Afghanistan and Iran (March 21/March 20), Qatar (April/March), and Egypt and Pakistan (July/June).

Data in Table 5 relate to the calendar year for all aggregates and countries.

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 the growth rates of monetary aggregates and exchange rates 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 8–12), 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 18) 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, 13–15, and 17 are sums of the individual country data.

Table 1. Real GDP Growth

(Annual change; percent)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	**5.1**	**5.8**	**6.0**	**4.6**	**2.3**	**4.2**	**4.8**
Oil exporters	**5.5**	**5.5**	**6.0**	**4.5**	**1.1**	**3.8**	**5.0**
Algeria	4.5	2.0	3.0	2.4	2.4	3.8	4.0
Bahrain	6.0	6.7	8.4	6.3	3.1	4.0	4.5
Iran, I.R. of	5.5	5.8	7.8	1.0	1.1	1.6	3.0
Iraq	...	6.2	1.5	9.5	4.2	2.6	11.5
Kuwait	7.1	5.3	4.5	5.5	-4.8	2.3	4.4
Libya	4.3	6.7	7.5	2.3	-2.3	10.6	6.2
Oman	3.3	5.5	6.8	12.8	3.6	4.7	4.7
Qatar	8.7	18.6	26.8	25.4	8.6	16.0	18.6
Saudi Arabia	4.0	3.2	2.0	4.2	0.6	3.4	4.5
Sudan	6.4	11.3	10.2	6.8	4.5	5.5	6.2
United Arab Emirates	7.7	8.7	6.1	5.1	-2.5	2.4	3.2
Yemen	4.5	3.2	3.3	3.6	3.9	8.0	4.1
Oil importers	**4.4**	**6.3**	**6.0**	**4.9**	**4.6**	**5.0**	**4.4**
Afghanistan, Rep. of	...	8.2	14.2	3.4	22.5	8.9	6.8
Djibouti	2.4	4.8	5.1	5.8	5.0	4.5	5.4
Egypt	4.0	6.8	7.1	7.2	4.7	5.3	5.5
Jordan	6.0	7.9	8.5	7.6	2.3	3.4	4.2
Lebanon	3.4	0.6	7.5	9.3	9.0	8.0	5.0
Mauritania	3.7	11.4	1.0	3.7	-1.1	4.7	5.1
Morocco	4.4	7.8	2.7	5.6	4.9	4.0	4.3
Pakistan	4.9	6.1	5.6	1.6	3.4	4.8	2.8
Syria	3.5	5.1	4.3	5.2	4.0	5.0	5.5
Tunisia	4.4	5.7	6.3	4.5	3.1	3.8	4.8
CCA	**9.4**	**13.7**	**12.4**	**6.5**	**3.6**	**5.7**	**5.4**
Oil and gas exporters	**9.7**	**14.6**	**12.6**	**6.6**	**4.9**	**6.1**	**5.4**
Azerbaijan	11.3	34.5	25.0	10.8	9.3	4.3	1.8
Kazakhstan	10.3	10.7	8.9	3.2	1.2	5.4	5.1
Turkmenistan	16.6	11.4	11.6	10.5	6.1	9.4	11.5
Uzbekistan	5.1	7.5	9.5	9.0	8.1	8.0	7.0
Oil and gas importers	**7.7**	**8.8**	**11.2**	**5.9**	**-3.8**	**3.4**	**5.0**
Armenia	11.2	13.2	13.7	6.9	-14.2	4.0	4.6
Georgia	6.4	9.4	12.3	2.3	-3.9	5.5	4.0
Kyrgyz Republic	4.1	3.1	8.5	8.4	2.3	-3.5	7.1
Tajikistan	9.2	7.0	7.8	7.9	3.4	5.5	5.0
Memorandum							
GCC	**5.3**	**5.6**	**5.4**	**7.0**	**0.4**	**4.5**	**5.9**
Maghreb	**4.4**	**4.8**	**4.1**	**3.5**	**2.4**	**5.0**	**4.6**
Mashreq	**4.0**	**6.1**	**6.8**	**7.1**	**4.8**	**5.4**	**5.4**

Sources: National authorities; and IMF staff estimates and projections.

Table 2. Nominal GDP

(Billions of U.S. dollars)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	**1,005.9**	**1,660.7**	**1,948.9**	**2,417.1**	**2,150.8**	**2,422.7**	**2,632.1**
Oil exporters	**700.8**	**1,243.0**	**1,464.4**	**1,833.6**	**1,535.1**	**1,748.3**	**1,899.2**
Algeria	70.4	117.3	134.3	170.2	139.8	159.0	171.6
Bahrain	9.8	15.8	18.5	21.9	20.6	21.7	24.4
Iran, I.R. of	135.3	222.1	285.9	330.7	325.9	337.9	342.3
Iraq	...	45.1	57.0	86.5	65.8	84.1	92.9
Kuwait	49.8	101.6	114.7	148.0	98.4	117.3	127.8
Libya	33.2	56.5	71.6	88.9	60.2	77.9	85.3
Oman	22.7	36.8	41.9	60.3	46.1	53.8	59.0
Qatar	25.5	60.5	80.8	110.7	98.3	126.5	157.9
Saudi Arabia	223.7	356.6	385.2	476.9	376.3	434.4	476.0
Sudan	17.9	36.4	46.5	58.0	54.6	65.9	73.8
United Arab Emirates	90.8	175.2	206.4	254.4	223.9	239.6	255.1
Yemen	12.1	19.1	21.7	26.9	25.1	30.0	33.2
Oil importers	**305.2**	**417.7**	**484.5**	**583.5**	**615.7**	**674.4**	**733.0**
Afghanistan, Rep. of	...	7.7	9.7	11.8	14.5	16.6	18.7
Djibouti	0.6	0.8	0.8	1.0	1.0	1.1	1.2
Egypt	88.7	107.4	130.3	162.4	188.0	216.8	239.2
Jordan	10.2	15.6	17.8	22.7	25.1	27.1	29.7
Lebanon	19.6	22.4	25.1	29.9	34.5	39.1	42.5
Mauritania	1.3	2.7	2.8	3.5	3.0	3.5	3.8
Morocco	46.9	65.6	75.2	88.9	91.4	91.7	96.3
Pakistan	85.0	127.5	143.2	163.9	162.0	174.8	190.2
Syria	23.1	33.5	40.6	54.5	52.6	59.6	65.7
Tunisia	26.3	34.4	38.9	44.9	43.5	43.9	45.5
CCA	**73.4**	**160.3**	**211.4**	**264.3**	**231.1**	**269.7**	**302.4**
Oil and gas exporters	**62.9**	**140.5**	**184.5**	**229.5**	**202.3**	**239.6**	**270.8**
Azerbaijan	7.7	21.0	33.1	46.4	43.1	52.2	57.9
Kazakhstan	32.7	81.0	103.1	135.6	107.9	129.8	147.6
Turkmenistan	10.6	21.4	26.0	19.0	18.5	19.9	23.5
Uzbekistan	11.9	17.0	22.3	28.6	32.8	37.7	41.7
Oil and gas importers	**10.5**	**19.8**	**26.9**	**34.8**	**28.8**	**30.1**	**31.6**
Armenia	2.9	6.4	9.2	11.7	8.5	8.8	8.9
Georgia	4.2	7.8	10.2	12.9	10.7	11.2	11.9
Kyrgyz Republic	1.8	2.8	3.8	5.1	4.6	4.4	4.7
Tajikistan	1.5	2.8	3.7	5.1	5.0	5.6	6.1
Memorandum							
GCC	**422.3**	**746.6**	**847.4**	**1,072.3**	**863.6**	**993.4**	**1,100.2**
Maghreb	**178.2**	**276.5**	**322.9**	**396.4**	**337.9**	**375.9**	**402.6**
Mashreq	**141.6**	**179.0**	**213.7**	**269.5**	**300.2**	**342.7**	**377.2**

Sources: National authorities; and IMF staff estimates and projections.

Table 3. Oil and Non-Oil Real GDP Growth

(Annual change; percent)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
				Non-oil GDP			
MENAP oil exporters	**5.8**	**7.2**	**8.1**	**5.4**	**3.6**	**3.8**	**4.6**
Algeria	4.8	5.6	6.3	5.9	9.3	5.3	5.3
Bahrain	7.8	8.1	9.6	7.2	3.6	4.5	5.1
Iran, I.R. of	5.9	6.2	8.6	1.6	1.9	1.7	3.3
Iraq	...	7.5	-2.0	5.4	4.0	4.5	5.0
Kuwait	9.7	7.2	9.7	7.0	-0.7	2.6	4.5
Libya	2.8	10.7	14.8	7.9	6.0	7.0	7.5
Oman	5.9	11.5	14.0	16.2	2.5	4.3	4.9
Qatar	9.1	23.7	30.6	27.8	9.6	11.5	11.0
Saudi Arabia	4.0	5.1	4.6	4.3	3.7	4.3	4.6
Sudan	5.1	9.7	7.5	8.5	4.8	6.2	5.7
United Arab Emirates	9.5	9.5	9.1	6.3	1.8	2.1	3.1
Yemen	5.2	4.7	5.3	4.8	4.1	4.4	4.8
CCA oil and gas exporters	**10.6**	**11.2**	**9.9**	**7.7**	**2.8**	**5.5**	**5.9**
Azerbaijan	10.5	12.1	11.3	15.7	3.0	5.6	5.0
Kazakhstan	9.7	10.8	9.1	3.2	0.5	4.8	5.3
Turkmenistan	17.2	12.1	11.4	13.0	15.5	9.0	11.1
Uzbekistan	...	...	...	...	...	...	...
Memorandum							
GCC	**6.1**	**7.8**	**8.7**	**7.8**	**3.2**	**4.5**	**5.1**
				Oil GDP			
MENAP oil exporters	**5.5**	**2.5**	**1.1**	**1.1**	**-5.1**	**3.5**	**4.3**
Algeria	4.1	-2.5	-0.9	-2.3	-5.9	0.6	1.7
Bahrain	-1.0	-1.0	1.1	0.4	-0.3	0.1	0.1
Iran, I.R. of	2.9	2.7	1.7	-3.7	-6.6	0.0	0.0
Iraq	...	5.3	4.0	12.3	4.3	1.5	15.7
Kuwait	4.5	2.8	-2.6	3.3	-11.4	1.9	4.3
Libya	5.6	4.3	2.8	-1.6	-8.9	14.0	5.0
Oman	0.8	-2.7	-4.4	6.5	5.8	5.6	4.3
Qatar	8.4	14.3	23.3	23.1	7.7	20.5	25.7
Saudi Arabia	4.3	-0.8	-3.6	4.2	-6.7	1.2	4.3
Sudan	49.7	26.5	33.0	-4.4	2.6	0.4	10.0
United Arab Emirates	3.9	6.5	-2.7	1.6	-9.7	3.0	3.4
Yemen	0.8	-8.3	-13.1	-8.1	1.6	51.0	-1.4
CCA oil and gas exporters	**15.9**	**22.0**	**15.4**	**3.6**	**4.8**	**8.4**	**3.6**
Azerbaijan	**13.2**	62.0	37.3	6.9	14.8	3.0	-1.3
Kazakhstan	16.3	9.9	6.9	2.8	7.1	10.2	3.5
Turkmenistan	17.4	8.6	12.6	-0.7	-35.4	12.5	14.4
Uzbekistan	...	...	...	...	...	...	...
Memorandum							
GCC	**4.2**	**1.8**	**-1.2**	**5.3**	**-5.4**	**3.8**	**6.5**

Sources: National authorities; and IMF staff estimates and projections.

Table 4. Crude Oil Production and Exports

(Millions of barrels per day)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
				Production			
MENAP oil exporters	**22.0**	**26.0**	**25.8**	**26.3**	**24.5**	**25.0**	**26.2**
Algeria	1.1	1.4	1.4	1.3	1.3	1.3	1.3
Bahrain	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Iran, I.R. of	3.7	4.0	4.1	3.9	3.7	3.7	3.7
Iraq	...	2.0	2.0	2.3	2.4	2.4	2.8
Kuwait	2.1	2.6	2.6	2.7	2.3	2.3	2.4
Libya	1.5	1.8	1.8	1.8	1.6	1.9	1.9
Oman	0.9	0.7	0.7	0.8	0.8	0.9	0.9
Qatar	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Saudi Arabia	8.3	9.2	8.8	9.2	8.4	8.5	8.9
Sudan	0.2	0.4	0.5	0.5	0.5	0.5	0.5
United Arab Emirates	2.2	2.6	2.5	2.6	2.3	2.4	2.5
Yemen	0.4	0.4	0.3	0.3	0.3	0.3	0.3
CCA oil and gas exporters	**1.5**	**2.2**	**2.4**	**2.5**	**2.7**	**2.9**	**3.0**
Azerbaijan	0.3	0.6	0.8	0.9	1.0	1.0	1.0
Kazakhstan	1.0	1.3	1.4	1.5	1.6	1.7	1.8
Turkmenistan	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Uzbekistan	...	...	...	...	...	...	...
Memorandum							
GCC	**14.4**	**16.2**	**15.7**	**16.2**	**14.8**	**15.1**	**15.7**
				Exports[1]			
MENAP oil exporters	**16.1**	**19.5**	**19.6**	**20.1**	**17.8**	**18.1**	**18.9**
Algeria	0.7	0.9	0.9	0.8	0.7	0.7	0.7
Bahrain	0.2	0.1	0.1	0.1	0.2	0.2	0.2
Iran, I.R. of	2.3	2.4	2.5	2.4	2.1	2.1	2.0
Iraq	...	1.4	1.6	1.8	1.9	1.9	2.2
Kuwait	1.3	1.7	1.7	1.8	1.4	1.4	1.4
Libya	1.1	1.4	1.5	1.4	1.2	1.4	1.5
Oman	0.8	0.6	0.6	0.6	0.7	0.7	0.7
Qatar	0.7	0.7	0.8	0.8	0.7	0.7	0.7
Saudi Arabia	6.4	7.0	7.0	7.3	6.3	6.3	6.6
Sudan	0.2	0.2	0.4	0.4	0.4	0.4	0.4
United Arab Emirates	2.0	2.4	2.3	2.4	2.1	2.1	2.2
Yemen	0.3	0.3	0.2	0.2	0.2	0.2	0.2
CCA oil and gas exporters	**1.1**	**1.7**	**2.0**	**2.0**	**2.2**	**2.4**	**2.4**
Azerbaijan	0.2	0.6	0.7	0.8	0.9	0.9	0.9
Kazakhstan	0.9	1.1	1.2	1.2	1.4	1.5	1.6
Turkmenistan	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Uzbekistan	...						
Memorandum							
GCC	**11.4**	**12.7**	**12.5**	**13.0**	**11.2**	**11.4**	**11.8**

Sources: National authorities; and IMF staff estimates and projections.
[1]Excluding exports of refined oil products.

Table 5. Consumer Price Inflation

(Year average; percent)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	**5.4**	**8.2**	**9.5**	**15.4**	**7.5**	**7.1**	**6.9**
Oil exporters	**6.2**	**8.7**	**10.8**	**15.0**	**6.8**	**5.9**	**6.4**
Algeria	2.3	2.3	3.6	4.9	5.7	5.5	5.2
Bahrain	0.7	2.0	3.3	3.5	2.8	2.6	2.5
Iran, I.R. of	14.1	11.7	17.2	25.5	13.5	8.0	10.0
Iraq	19.8	53.2	30.8	2.7	-2.8	5.1	5.0
Kuwait	1.7	3.1	5.5	10.6	4.0	4.1	3.6
Libya	-3.3	1.4	6.2	10.4	2.8	4.5	3.5
Oman	0.1	3.4	5.9	12.6	3.5	4.4	3.5
Qatar	3.5	11.8	13.8	15.0	-4.9	1.0	3.0
Saudi Arabia	-0.1	2.3	4.1	9.9	5.1	5.5	5.3
Sudan	7.6	7.2	8.0	14.3	11.3	10.0	9.0
United Arab Emirates	3.6	9.3	11.1	12.3	1.2	2.0	2.5
Yemen	11.6	10.8	7.9	19.0	3.7	9.8	8.9
Oil importers	**4.1**	**7.1**	**7.0**	**16.1**	**8.8**	**9.3**	**7.7**
Afghanistan, Rep. of	...	7.2	8.6	30.5	-8.3	-2.9	3.2
Djibouti	2.0	3.5	5.0	12.0	1.7	3.9	4.0
Egypt	4.7	7.6	9.5	18.3	11.7	10.9	9.5
Jordan	2.1	6.3	4.7	13.9	-0.7	5.5	5.0
Lebanon	0.5	5.6	4.1	10.8	1.2	5.0	3.5
Mauritania	7.9	6.2	7.3	7.3	2.2	6.1	5.2
Morocco	1.5	3.3	2.0	3.9	1.0	1.5	2.2
Pakistan	5.0	7.9	7.6	20.3	13.6	13.8	10.2
Syria	2.7	10.4	4.7	15.2	2.8	5.0	5.0
Tunisia	2.7	4.1	3.4	4.9	3.5	4.5	3.5
CCA	**9.7**	**9.3**	**11.4**	**16.5**	**6.2**	**7.3**	**7.3**
Oil and gas exporters	**10.0**	**9.7**	**11.9**	**16.8**	**6.6**	**7.5**	**7.3**
Azerbaijan	4.1	8.4	16.6	20.8	1.5	5.5	6.0
Kazakhstan	8.2	8.7	10.8	17.1	7.3	7.6	6.6
Turkmenistan	8.4	8.2	6.3	14.5	-2.7	3.9	4.8
Uzbekistan	18.0	14.2	12.3	12.7	14.1	10.6	11.4
Oil and gas importers	**7.8**	**6.9**	**8.8**	**14.4**	**4.2**	**6.6**	**6.7**
Armenia	2.6	2.9	4.4	9.0	3.5	7.8	5.5
Georgia	5.5	9.2	9.2	10.0	1.7	6.4	7.4
Kyrgyz Republic	6.5	5.6	10.2	24.5	6.8	4.8	5.7
Tajikistan	19.1	10.0	13.2	20.4	6.5	7.0	8.0
Memorandum							
GCC	**0.9**	**4.3**	**6.3**	**10.8**	**3.2**	**4.2**	**4.2**
Maghreb	**1.4**	**2.7**	**3.6**	**5.5**	**3.7**	**4.2**	**3.9**
Mashreq	**3.9**	**7.8**	**8.0**	**17.0**	**8.9**	**9.2**	**8.1**

Sources: National authorities; and IMF staff estimates and projections.

Table 6. Broad Money Growth

(Annual change; percent)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	**15.6**	**21.7**	**24.6**	**18.3**	**12.8**	**10.7**	**12.6**
Oil exporters	**17.0**	**24.9**	**27.4**	**19.5**	**13.6**	**10.6**	**12.7**
Algeria	14.8	18.6	24.1	16.1	3.2	16.1	10.7
Bahrain	10.4	14.9	40.8	18.4	5.8	9.8	12.3
Iran, I.R. of	30.7	39.2	28.6	16.6	21.7	9.0	16.8
Iraq	...	34.6	37.3	35.4	26.7	15.0	22.5
Kuwait	9.3	21.7	19.3	15.6	13.4	3.2	9.7
Libya	9.7	15.0	37.3	47.3	17.6	20.0	15.0
Oman	8.0	24.9	37.2	23.1	4.7	8.7	11.2
Qatar	20.3	38.0	39.5	19.7	16.9	16.3	15.4
Saudi Arabia	10.8	19.3	19.6	17.6	10.7	9.5	10.9
Sudan	32.4	27.4	10.3	16.3	23.5	21.0	18.0
United Arab Emirates	19.9	23.2	41.7	19.2	9.8	6.0	6.3
Yemen	19.6	27.7	16.8	13.7	10.6	15.5	16.0
Oil importers	**12.8**	**13.7**	**16.6**	**14.6**	**10.1**	**11.1**	**12.5**
Afghanistan, Rep. of	...	22.3	14.4	31.0	35.9	39.3	24.9
Djibouti	11.2	10.2	9.6	20.6	17.5	10.1	8.6
Egypt	13.3	13.4	18.3	15.5	8.4	10.4	16.9
Jordan	10.7	14.1	10.6	17.3	9.3	9.8	9.4
Lebanon[1]	9.1	6.4	10.9	15.5	23.2	12.0	12.0
Mauritania	21.9	15.7	18.9	13.7	15.2	13.1	12.2
Morocco	9.3	17.8	17.0	9.9	5.5	5.0	6.6
Pakistan	15.1	14.9	19.3	15.3	9.6	12.5	11.0
Syria	16.8	9.2	12.4	12.5	9.2	12.0	11.5
Tunisia	9.6	11.4	12.5	14.4	13.0	12.5	11.3
CCA	**36.1**	**65.3**	**43.5**	**36.5**	**17.2**	**19.8**	**19.4**
Oil and gas exporters	**37.4**	**69.0**	**42.6**	**40.9**	**17.4**	**19.5**	**19.9**
Azerbaijan	28.8	86.4	72.4	44.0	-0.3	17.0	20.0
Kazakhstan	40.7	78.1	25.9	35.4	19.5	16.5	13.9
Turkmenistan	32.4	55.9	72.2	62.8	10.9	20.9	37.3
Uzbekistan	41.0	37.8	46.9	35.6	39.9	34.6	32.1
Oil and gas importers	**28.4**	**43.1**	**49.2**	**6.2**	**15.8**	**21.4**	**16.4**
Armenia	22.9	32.9	42.3	2.4	16.4	13.1	13.5
Georgia	27.9	39.3	49.6	7.0	8.1	33.0	17.0
Kyrgyz Republic	22.1	51.6	33.3	12.6	17.9	11.4	18.7
Tajikistan	48.0	63.4	78.8	6.0	32.7	20.2	18.7
Memorandum							
GCC	**12.8**	**21.9**	**27.3**	**18.2**	**11.1**	**8.5**	**10.2**
Maghreb	**11.2**	**16.7**	**23.2**	**20.8**	**8.1**	**13.7**	**10.6**
Mashreq	**13.0**	**11.7**	**15.5**	**15.1**	**10.4**	**10.8**	**14.7**

Sources: National authorities; and IMF staff estimates and projections.
[1]Broad money (M5) is defined to include nonresident deposits.

Table 7. General Government Fiscal Balance

(Percent of GDP)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	**2.0**	**6.8**	**5.1**	**6.4**	**-3.3**	**-1.9**	**0.1**
Oil exporters	**5.5**	**12.9**	**10.3**	**12.8**	**-2.1**	**0.5**	**2.9**
Algeria	6.6	13.5	4.4	7.7	-6.7	-9.9	-8.4
Bahrain[1]	1.7	2.8	1.1	4.9	-8.9	-5.4	-5.5
Iran, I.R. of	2.0	0.0	2.7	0.0	-1.7	0.4	2.4
Iraq	...	15.5	12.4	-3.3	-21.9	-14.2	-8.2
Kuwait[1]	27.2	35.4	39.8	19.9	19.6	17.1	17.8
Libya	12.6	33.1	33.3	30.3	9.4	13.3	14.2
Oman[1]	8.4	13.8	11.0	13.8	1.2	5.3	4.9
Qatar	8.8	8.6	10.8	10.3	14.4	10.8	7.3
Saudi Arabia	7.7	24.6	15.7	35.4	-2.4	1.9	6.2
Sudan	-0.6	-4.3	-5.4	-1.4	-4.7	-3.7	-4.6
United Arab Emirates[2]	0.1	16.6	13.8	12.3	-12.4	-2.7	3.7
Yemen	0.0	1.2	-7.2	-4.5	-10.2	-5.5	-5.0
Oil importers	**-4.7**	**-5.1**	**-4.9**	**-5.7**	**-5.4**	**-6.3**	**-5.1**
Afghanistan, Rep. of	...	-2.9	-1.8	-3.7	-1.2	-0.9	-1.3
Djibouti	-1.8	-2.5	-2.6	1.3	-4.9	-0.5	0.0
Egypt	-6.4	-9.2	-7.5	-7.8	-7.0	-8.2	-7.6
Jordan	-3.1	-3.4	-5.5	-5.4	-8.5	-6.3	-5.5
Lebanon	-15.3	-10.4	-10.8	-9.6	-8.1	-8.7	-9.6
Mauritania[3]	-6.6	35.8	-1.6	-6.5	-5.1	-4.5	-4.0
Morocco[1]	-5.2	-1.8	0.3	1.5	-2.1	-4.5	-3.6
Pakistan	-2.7	-3.7	-4.0	-7.3	-5.2	-6.0	-3.6
Syria	-2.1	-1.1	-4.0	-2.8	-5.4	-4.3	-3.1
Tunisia	-2.6	-2.9	-2.8	-0.7	-2.6	-2.8	-2.6
CCA	**0.6**	**4.2**	**3.1**	**6.3**	**0.9**	**1.2**	**1.6**
Oil and gas exporters	**1.3**	**5.3**	**4.3**	**8.1**	**2.2**	**2.5**	**2.8**
Azerbaijan[1]	0.2	-0.2	2.6	20.8	6.8	13.9	14.4
Kazakhstan	2.4	7.2	4.7	1.1	-1.5	-2.8	-2.0
Turkmenistan[4]	1.0	5.3	3.9	11.3	7.8	2.8	1.3
Uzbekistan	-0.6	5.2	5.3	10.7	3.2	2.2	2.4
Oil and gas importers	**-2.8**	**-1.6**	**-3.6**	**-3.8**	**-6.9**	**-6.5**	**-5.3**
Armenia[1]	-2.6	-2.0	-2.3	-1.8	-7.8	-4.8	-3.9
Georgia	-1.1	-3.0	-4.7	-6.3	-9.2	-6.1	-4.5
Kyrgyz Republic	-5.6	-2.1	-0.3	0.0	-3.7	-12.0	-8.5
Tajikistan	-3.0	1.7	-6.2	-5.9	-5.2	-4.4	-5.1
Memorandum							
GCC	**8.9**	**22.4**	**17.4**	**25.4**	**0.3**	**4.0**	**6.9**
Maghreb	**3.2**	**10.6**	**6.9**	**8.3**	**-2.3**	**-3.7**	**-2.6**
Mashreq	**-6.3**	**-7.7**	**-7.1**	**-7.0**	**-6.9**	**-7.5**	**-7.0**

Sources: National authorities; and IMF staff estimates and projections.
[1]Central government.
[2]Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.
[3]Includes oil revenue transferred to the oil fund.
[4]State government.

Table 8. General Government Total Revenue, Excluding Grants

(Percent of GDP)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	**30.7**	**36.6**	**35.5**	**37.8**	**31.8**	**31.9**	**32.1**
Oil exporters	**35.8**	**44.1**	**42.4**	**45.8**	**37.0**	**37.8**	**38.1**
Algeria	37.0	42.7	39.6	47.2	36.2	38.3	38.2
Bahrain[1]	31.7	30.8	29.3	32.5	22.1	25.0	23.7
Iran, I.R. of	24.3	29.9	30.9	27.2	25.7	26.5	26.4
Iraq	...	74.5	79.0	81.5	74.7	74.3	74.1
Kuwait[1]	63.9	67.3	69.7	60.1	67.0	60.3	62.2
Libya	48.6	64.1	66.0	70.1	64.7	59.2	59.4
Oman[1]	46.7	48.8	45.3	46.5	40.3	44.0	43.1
Qatar	40.3	39.1	40.1	35.0	43.2	36.7	30.5
Saudi Arabia	44.0	56.6	50.1	66.2	42.2	44.7	46.9
Sudan	15.4	20.5	20.0	21.3	15.2	17.1	16.3
United Arab Emirates[2]	29.3	36.4	35.8	39.4	25.8	29.9	31.0
Yemen	32.8	38.2	32.8	36.5	24.6	25.8	23.8
Oil importers	**21.2**	**22.3**	**22.3**	**22.5**	**22.1**	**20.9**	**21.0**
Afghanistan, Rep. of	…	7.5	6.9	6.9	8.9	9.6	10.3
Djibouti	26.4	31.1	30.2	28.8	30.6	30.0	30.7
Egypt	25.7	28.2	27.2	27.6	27.0	24.7	23.8
Jordan	25.6	28.1	28.4	24.7	23.3	21.7	22.1
Lebanon	20.5	22.1	22.7	22.9	24.2	23.7	23.9
Mauritania[3]	28.9	29.4	25.8	23.4	24.7	22.3	21.7
Morocco[1]	22.6	25.1	27.4	29.7	25.9	24.2	24.4
Pakistan	13.9	14.1	15.0	14.6	14.5	14.2	15.2
Syria	27.4	25.5	22.7	19.4	21.9	21.4	21.6
Tunisia	26.8	26.5	27.4	29.6	29.0	28.2	28.2
CCA	**24.9**	**27.3**	**28.5**	**33.4**	**29.5**	**30.4**	**30.4**
Oil and gas exporters	**26.3**	**28.3**	**29.3**	**35.1**	**30.4**	**31.4**	**31.3**
Azerbaijan[1]	24.2	28.0	28.2	51.1	41.6	46.1	45.0
Kazakhstan	24.6	27.5	29.3	27.9	23.7	24.2	25.0
Turkmenistan[4]	21.2	20.2	17.3	23.6	22.4	18.4	17.5
Uzbekistan	33.1	34.1	35.4	40.5	37.1	37.6	37.7
Oil and gas importers	**17.8**	**21.9**	**24.3**	**24.0**	**24.0**	**23.9**	**24.4**
Armenia[1]	15.6	17.5	19.3	20.1	20.4	20.5	21.0
Georgia[5]	18.2	25.5	28.7	27.5	27.2	26.2	26.3
Kyrgyz Republic	21.1	25.6	28.1	28.0	27.7	28.6	28.8
Tajikistan	16.5	18.9	20.5	20.5	20.0	20.1	21.6
Memorandum							
GCC	**43.9**	**52.4**	**48.6**	**56.3**	**42.0**	**42.9**	**43.6**
Maghreb	**33.6**	**39.1**	**38.9**	**43.6**	**36.9**	**36.4**	**36.5**
Mashreq	**25.6**	**27.3**	**26.2**	**25.8**	**25.8**	**24.0**	**23.4**

Sources: National authorities; and IMF staff estimates and projections.
[1]Central government.
[2]Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.
[3]Includes oil revenue transferred to the oil fund.
[4]State government.
[5]Revised for 2002–04 to include extrabudgetary revenues.

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

(Percent of non-oil GDP)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP oil exporters	**-34.1**	**-40.1**	**-41.9**	**-50.5**	**-47.4**	**-49.1**	**-46.1**
Algeria	-31.5	-35.6	-45.7	-54.1	-45.3	-56.2	-54.7
Bahrain[1]	-29.0	-28.3	-29.6	-31.9	-34.3	-34.8	-32.1
Iran, I.R. of	-18.9	-28.2	-26.2	-23.6	-18.9	-18.3	-16.1
Iraq	...	-101.0	-126.0	-215.0	-165.4	-174.7	-157.5
Kuwait[1]	-35.9	-30.3	-27.7	-76.1	-69.8	-69.9	-70.6
Libya	-76.1	-135.3	-124.7	-167.0	-137.9	-128.5	-124.8
Oman[1]	-56.6	-54.5	-47.5	-54.8	-52.0	-58.1	-56.3
Qatar	-45.6	-40.6	-30.7	-20.4	-9.3	-17.4	-23.4
Saudi Arabia	-40.9	-44.8	-51.3	-49.8	-63.4	-65.7	-61.2
Sudan	-9.5	-18.5	-20.9	-20.1	-13.8	-14.5	-15.0
United Arab Emirates[2]	-27.9	-13.7	-14.2	-27.9	-37.3	-31.8	-22.9
Yemen	-35.4	-42.6	-43.1	-46.3	-31.3	-32.6	-28.2
CCA oil and gas exporters	**-7.2**	**-10.9**	**-12.2**	**-21.1**	**-21.2**	**-24.1**	**-22.4**
Azerbaijan[1]	-12.2	-31.2	-28.6	-38.4	-38.7	-38.6	-34.7
Kazakhstan	-5.5	-4.2	-6.5	-15.9	-15.0	-19.7	-18.3
Turkmenistan[3]	-10.0	-7.4	-6.5	-6.8	-9.4	-11.7	-14.7
Uzbekistan	...	...	...	...	...	...	...
Memorandum							
GCC	**-39.3**	**-37.8**	**-39.9**	**-46.9**	**-53.5**	**-54.6**	**-51.1**

Sources: National authorities; and IMF staff estimates and projections.
[1]Central government.
[2]Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.
[3]State government.

Table 10. Oil Exporters: General Government Non-Oil Revenue

(Percent of non-oil GDP)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP oil exporters	**16.5**	**19.1**	**19.2**	**19.2**	**18.4**	**18.2**	**17.8**
Algeria	17.1	18.1	17.1	18.4	18.4	19.2	19.2
Bahrain[1]	11.1	9.6	7.8	6.7	4.7	4.6	4.8
Iran, I.R. of	9.9	12.4	12.5	12.0	14.8	14.4	14.2
Iraq	...	7.8	13.1	12.5	14.3	16.4	17.4
Kuwait[1]	35.0	47.0	40.5	31.7	21.8	20.8	21.7
Libya	20.7	25.2	29.5	33.7	31.5	32.6	29.8
Oman[1]	14.0	12.8	14.5	11.7	14.1	13.4	13.4
Qatar	29.5	34.0	37.0	32.4	44.3	40.4	32.8
Saudi Arabia	22.3	24.6	24.5	28.3	21.7	20.4	19.8
Sudan	8.4	11.3	10.3	9.0	8.6	9.7	9.5
United Arab Emirates[2]	14.0	16.5	18.9	15.1	13.7	14.5	16.0
Yemen	13.1	14.3	14.8	12.4	12.6	13.7	12.9
CCA oil and gas exporters	**24.2**	**24.4**	**26.1**	**22.6**	**20.7**	**20.2**	**20.1**
Azerbaijan[1]	23.9	29.9	29.7	27.7	26.8	27.3	27.7
Kazakhstan	25.6	24.4	26.9	21.7	18.3	17.7	17.9
Turkmenistan[3]	14.6	12.1	11.6	15.4	17.8	15.2	14.0
Uzbekistan	...	...	...	...	...	...	...
Memorandum							
GCC	**22.3**	**25.7**	**25.5**	**25.3**	**21.5**	**20.8**	**20.1**

Sources: National authorities; and IMF staff estimates and projections.
[1]Central government.
[2]Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.
[3]State government.

Table 11. General Government Total Expenditure and Net Lending

(Percent of GDP)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	**29.3**	**30.5**	**30.9**	**31.7**	**35.4**	**34.1**	**32.3**
Oil exporters	**30.6**	**31.7**	**32.4**	**33.2**	**39.3**	**37.5**	**35.4**
Algeria[1]	30.5	29.2	35.2	39.5	43.0	48.2	46.6
Bahrain[2]	27.9	28.5	28.7	28.0	31.4	30.8	29.5
Iran, I.R. of	22.3	29.8	28.3	27.2	27.4	26.2	24.0
Iraq	...	72.7	71.9	87.6	99.7	90.1	83.5
Kuwait[2]	36.7	31.9	30.0	40.2	47.4	43.3	44.3
Libya	36.0	31.0	32.7	39.8	55.3	45.9	45.2
Oman[2]	38.3	34.8	36.4	32.6	39.4	38.7	38.2
Qatar	31.5	30.5	29.3	24.6	28.8	25.9	23.2
Saudi Arabia	36.4	32.0	34.4	30.8	44.5	42.8	40.7
Sudan	16.0	25.2	26.0	23.2	20.4	21.6	21.4
United Arab Emirates[3]	29.2	19.8	22.0	27.2	38.2	32.6	27.4
Yemen	33.2	37.4	40.3	41.2	35.2	32.5	30.3
Oil importers	**26.8**	**28.2**	**27.9**	**28.9**	**28.2**	**27.7**	**26.7**
Afghanistan, Rep. of	...	19.6	19.7	19.3	18.9	21.8	23.1
Djibouti	34.3	37.4	37.7	40.6	41.8	35.8	36.7
Egypt	32.9	37.8	35.3	35.6	34.8	33.2	31.7
Jordan	35.5	34.5	36.6	34.5	33.6	29.6	28.8
Lebanon	35.9	35.5	34.9	33.4	32.7	32.8	33.7
Mauritania	37.0	28.5	29.6	30.6	30.6	29.6	27.4
Morocco[2,4]	28.1	27.4	27.5	29.6	28.5	29.1	28.4
Pakistan	17.7	18.4	19.3	22.2	19.9	20.5	19.2
Syria	29.4	26.6	26.6	22.1	27.3	25.8	24.7
Tunisia	29.6	29.4	30.2	30.7	32.0	31.2	31.0
CCA	**24.6**	**23.3**	**25.7**	**27.6**	**29.2**	**29.7**	**29.1**
Oil and gas exporters	**25.2**	**22.9**	**25.1**	**27.1**	**28.3**	**29.0**	**28.7**
Azerbaijan[2,5]	24.0	27.4	25.9	31.1	34.8	32.2	30.6
Kazakhstan	22.3	20.2	24.6	26.8	25.2	27.1	27.1
Turkmenistan[6]	20.2	14.9	13.4	12.3	14.7	15.6	16.3
Uzbekistan	34.5	29.2	30.3	30.0	34.2	35.8	35.7
Oil and gas importers	**21.5**	**25.5**	**29.3**	**29.8**	**34.5**	**33.5**	**31.6**
Armenia[5]	19.9	20.6	23.2	23.0	32.4	27.9	27.4
Georgia	19.9	29.7	34.0	37.0	38.5	35.1	32.1
Kyrgyz Republic	27.7	28.9	31.0	29.3	37.0	45.9	39.2
Tajikistan	19.9	21.9	28.6	28.0	28.6	26.6	28.9
Memorandum							
GCC	**34.9**	**30.0**	**31.4**	**30.9**	**41.7**	**38.9**	**36.7**
Maghreb	**30.7**	**29.1**	**32.1**	**35.6**	**39.4**	**40.2**	**39.2**
Mashreq	**32.7**	**35.6**	**34.0**	**33.3**	**33.4**	**31.9**	**30.7**

Sources: National authorities; and IMF staff estimates and projections.
[1]Including special accounts.
[2]Central government.
[3]Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.
[4]Net lending includes balance on special treasury accounts.
[5]Expenditures do not include statistical discrepancy.
[6]State government.

Table 12. Total Government Debt

(Percent of GDP)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	**63.7**	**45.3**	**39.5**	**36.0**	**39.7**	**35.6**	**34.1**
Oil exporters	**49.7**	**29.9**	**24.3**	**21.1**	**27.0**	**21.0**	**19.4**
Algeria	49.0	23.6	12.5	8.2	15.7	16.1	15.4
Bahrain[1]	31.9	23.6	19.2	14.7	26.6	32.8	29.9
Iran, I.R. of	23.5	19.7	17.9	21.8	21.6	21.7	20.2
Iraq	...	198.4	175.3	108.6	141.7	42.2	41.5
Kuwait[1]	25.2	8.3	6.7	5.7	7.7	6.5	6.0
Libya	23.4	0.9	0.0	0.0	0.0	0.0	0.0
Oman[1]	18.3	9.6	7.5	5.0	7.8	5.7	4.3
Qatar	41.6	13.1	9.2	11.6	36.7	27.2	22.5
Saudi Arabia	77.3	27.3	18.5	13.2	16.0	12.9	11.0
Sudan	145.8	89.3	82.3	69.8	80.6	71.4	70.0
United Arab Emirates[2]	6.3	9.4	9.8	15.5	27.1	24.7	21.6
Yemen	55.4	40.8	40.4	36.4	51.0	45.8	46.1
Oil importers	**89.6**	**75.4**	**69.1**	**64.7**	**63.9**	**63.5**	**62.0**
Afghanistan, Rep. of	...	...	...	...	...	...	...
Djibouti	32.7	56.8	63.6	60.2	59.7	58.8	55.4
Egypt	100.0	98.8	87.1	76.6	76.2	74.2	71.7
Jordan	96.7	73.5	71.1	58.4	61.8	63.0	62.7
Lebanon	162.3	179.9	167.7	157.1	148.0	139.0	137.5
Mauritania[3]	224.6	110.5	112.6	99.7	130.6	88.5	82.9
Morocco[1]	66.6	59.4	54.6	48.2	47.7	49.9	50.2
Pakistan	76.5	56.4	54.6	58.7	57.3	58.7	57.2
Syria	110.5	50.6	40.5	30.5	27.3	26.9	26.4
Tunisia	62.2	48.8	45.9	43.3	42.8	43.0	42.8
CCA	**30.7**	**13.9**	**11.3**	**10.9**	**15.0**	**18.4**	**20.8**
Oil and gas exporters	**23.5**	**10.0**	**8.1**	**7.7**	**10.6**	**13.5**	**15.7**
Azerbaijan[1]	20.9	10.2	8.6	7.3	12.1	12.9	12.3
Kazakhstan	16.3	6.7	5.9	6.6	10.9	16.0	19.0
Turkmenistan[4]	19.5	3.3	2.4	3.2	2.7	8.9	16.3
Uzbekistan	43.5	21.3	15.8	12.8	11.2	10.4	11.7
Oil and gas importers	**66.3**	**34.8**	**28.9**	**28.5**	**41.5**	**48.8**	**51.9**
Armenia[1]	40.0	18.7	16.1	16.2	40.6	44.8	52.0
Georgia	55.9	27.3	21.5	27.6	37.4	46.2	47.8
Kyrgyz Republic	103.7	72.5	56.8	48.5	59.4	70.0	69.1
Tajikistan	76.1	35.8	35.2	29.9	33.0	38.6	42.6
Memorandum							
GCC	**53.5**	**19.8**	**14.2**	**12.0**	**18.4**	**15.5**	**13.3**
Maghreb	**53.3**	**33.7**	**27.0**	**23.3**	**26.8**	**27.0**	**26.6**
Mashreq	**106.6**	**96.2**	**85.4**	**75.0**	**74.0**	**71.9**	**69.9**

Sources: National authorities; and IMF staff estimates and projections.
[1]Central government.
[2]Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.
[3]Includes oil revenue transferred to the oil fund.
[4]State government.

Table 13. Exports of Goods and Services

(Billions of U.S. dollars)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	**432.2**	**877.4**	**1,030.4**	**1,339.5**	**966.1**	**1,125.1**	**1,234.9**
Oil exporters	**351.6**	**746.9**	**877.5**	**1,144.3**	**794.4**	**944.1**	**1,037.5**
Algeria	28.6	57.3	63.5	82.1	48.2	61.8	67.1
Bahrain	8.7	15.5	17.2	21.1	15.7	17.8	18.9
Iran, I.R. of	41.5	82.8	104.7	108.4	87.1	95.0	98.0
Iraq	...	30.2	38.7	63.6	41.3	53.7	58.8
Kuwait	27.3	64.9	72.7	98.4	61.9	75.1	81.1
Libya	18.2	43.0	49.2	62.3	37.4	48.2	52.7
Oman	13.6	22.9	26.4	39.6	29.4	36.6	39.3
Qatar	16.7	39.3	51.4	73.5	53.3	73.2	96.2
Saudi Arabia	109.5	225.6	249.6	323.5	202.5	242.5	264.6
Sudan	2.8	6.0	9.3	13.0	8.2	11.0	12.3
United Arab Emirates	73.3	151.5	187.1	248.8	202.3	220.3	238.7
Yemen	4.6	7.9	7.8	10.2	7.1	9.1	9.6
Oil importers	**80.6**	**130.5**	**152.8**	**195.2**	**171.7**	**181.0**	**197.4**
Afghanistan, Rep. of	...	1.9	2.0	2.5	2.8	3.0	3.3
Djibouti	0.2	0.3	0.3	0.4	0.4	0.4	0.5
Egypt	19.6	33.9	39.5	53.3	47.0	46.6	53.5
Jordan	4.9	8.1	9.3	12.4	10.9	11.6	12.3
Lebanon	8.5	13.7	16.0	22.8	22.8	25.8	27.8
Mauritania	0.5	1.4	1.5	1.9	1.5	1.9	2.1
Morocco	13.9	21.7	27.3	33.4	26.3	28.2	30.4
Pakistan	12.9	20.3	21.4	24.0	23.2	24.8	26.2
Syria	7.9	13.1	15.5	19.3	16.7	18.5	20.2
Tunisia	11.0	16.0	20.1	25.2	19.9	20.1	21.1
CCA	**32.0**	**75.6**	**100.8**	**142.4**	**100.4**	**121.5**	**135.8**
Oil and gas exporters	**28.2**	**69.4**	**92.8**	**133.0**	**92.3**	**112.3**	**125.4**
Azerbaijan	3.8	14.0	22.5	32.1	22.8	28.2	29.7
Kazakhstan	16.8	41.6	51.9	76.4	48.2	61.3	68.0
Turkmenistan	3.7	7.5	9.5	12.3	9.5	10.1	12.5
Uzbekistan	4.0	6.3	8.9	12.2	11.7	12.8	15.2
Oil and gas importers	**3.8**	**6.2**	**8.0**	**9.3**	**8.2**	**9.2**	**10.4**
Armenia	0.8	1.5	1.8	1.8	1.3	1.5	1.7
Georgia	1.4	2.6	3.2	3.7	3.2	3.9	4.4
Kyrgyz Republic	0.8	1.5	2.2	3.0	2.8	2.9	3.3
Tajikistan	0.9	0.7	0.8	0.9	0.8	0.9	1.0
Memorandum							
GCC	**248.9**	**519.7**	**604.4**	**804.8**	**565.1**	**665.3**	**738.9**
Maghreb	**72.2**	**139.5**	**161.5**	**205.0**	**133.3**	**160.2**	**173.4**
Mashreq	**40.9**	**68.8**	**80.3**	**107.8**	**97.5**	**102.5**	**113.8**

Sources: National authorities; and IMF staff estimates and projections

Table 14. Imports of Goods and Services

(Billions of U.S. dollars)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	**340.1**	**615.1**	**780.5**	**1,011.8**	**909.1**	**997.8**	**1,078.7**
Oil exporters	**240.6**	**446.9**	**579.3**	**748.2**	**675.8**	**757.2**	**817.3**
Algeria	16.8	25.5	33.3	49.1	49.3	54.0	57.6
Bahrain	6.7	11.3	12.3	15.7	11.2	13.3	14.0
Iran, I.R. of	35.5	63.3	71.7	86.3	75.4	80.7	83.5
Iraq	...	23.2	29.4	48.7	54.5	61.8	67.4
Kuwait	16.3	26.9	32.5	38.2	30.8	34.2	36.6
Libya	9.6	15.2	20.0	24.9	27.0	28.8	30.7
Oman	8.7	13.8	19.4	26.6	21.6	25.4	26.9
Qatar	7.1	21.8	27.2	35.4	33.3	45.6	52.1
Saudi Arabia	63.6	115.3	147.1	179.5	163.6	193.1	208.7
Sudan	3.9	10.0	11.0	12.5	11.4	12.3	12.7
United Arab Emirates	59.9	112.9	166.1	219.7	187.5	197.6	216.3
Yemen	4.4	7.8	9.4	11.7	10.1	10.4	11.0
Oil importers	**99.5**	**168.2**	**201.1**	**263.5**	**233.4**	**240.6**	**261.3**
Afghanistan, Rep. of	...	7.4	8.4	9.5	9.5	10.0	10.8
Djibouti	0.3	0.5	0.6	0.7	0.6	0.6	0.8
Egypt	22.8	38.2	45.2	63.1	59.9	57.0	64.2
Jordan	7.7	13.2	15.7	19.2	16.3	17.6	18.7
Lebanon	12.7	16.7	20.6	28.1	28.4	32.0	34.5
Mauritania	0.9	1.6	2.1	2.7	2.1	2.5	2.7
Morocco	16.1	26.1	34.6	46.3	37.2	39.4	41.8
Pakistan	15.5	33.2	35.3	45.4	39.2	37.9	41.7
Syria	8.3	14.6	17.7	21.9	19.1	21.2	22.9
Tunisia	11.7	16.7	20.8	26.6	20.9	22.3	23.3
CCA	**31.0**	**60.8**	**82.7**	**100.9**	**87.1**	**92.7**	**105.4**
Oil and gas exporters	**25.7**	**50.0**	**67.5**	**80.2**	**71.7**	**75.4**	**86.2**
Azerbaijan	4.2	8.1	9.4	11.5	9.9	12.5	14.0
Kazakhstan	14.8	32.9	45.0	49.6	38.8	40.4	48.1
Turkmenistan	3.1	3.6	4.9	7.8	11.3	10.0	10.4
Uzbekistan	3.5	5.4	8.2	11.4	11.7	12.5	13.7
Oil and gas importers	**5.3**	**10.8**	**15.3**	**20.7**	**15.3**	**17.3**	**19.2**
Armenia	1.4	2.5	3.6	4.7	3.7	3.9	4.1
Georgia	2.0	4.4	5.9	7.5	5.3	6.1	6.6
Kyrgyz Republic	0.9	2.3	3.2	4.7	3.7	4.1	5.0
Tajikistan	1.1	1.6	2.6	3.7	2.7	3.2	3.5
Memorandum							
GCC	**162.3**	**302.0**	**404.6**	**515.1**	**448.0**	**509.1**	**554.6**
Maghreb	**55.2**	**85.0**	**110.8**	**149.5**	**136.6**	**147.0**	**156.0**
Mashreq	**51.5**	**82.8**	**99.2**	**132.3**	**123.7**	**127.9**	**140.3**

Sources: National authorities; and IMF staff estimates and projections.

Table 15. Current Account Balance

(Billions of U.S. dollars)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	**88.4**	**278.7**	**265.5**	**329.5**	**42.8**	**93.7**	**121.2**
Oil exporters	**89.6**	**285.2**	**277.1**	**356.6**	**70.0**	**117.3**	**147.6**
Algeria	10.3	29.0	30.6	34.5	0.4	5.4	6.2
Bahrain	0.5	2.2	2.9	2.3	0.6	1.1	1.3
Iran, I.R. of	6.7	20.4	34.1	24.0	11.9	14.3	15.3
Iraq	...	8.5	7.1	11.0	-16.9	-12.1	-8.0
Kuwait	13.7	45.3	42.2	60.2	28.7	35.3	38.7
Libya	7.2	28.1	29.8	37.1	9.4	15.7	17.3
Oman	2.2	5.7	2.5	5.0	-0.3	3.1	3.6
Qatar	6.7	16.1	21.7	34.6	14.1	19.7	36.3
Saudi Arabia	34.3	99.1	93.5	132.5	22.8	29.1	29.4
Sudan	-1.7	-5.5	-5.8	-5.2	-7.0	-5.8	-5.3
United Arab Emirates	10.4	36.2	20.1	22.0	9.0	12.9	14.3
Yemen	0.6	0.2	-1.5	-1.3	-2.7	-1.5	-1.5
Oil importers	**-1.1**	**-6.5**	**-11.6**	**-27.2**	**-27.2**	**-23.6**	**-26.5**
Afghanistan, Rep. of	...	-0.4	0.1	-0.1	-0.3	0.1	-0.1
Djibouti	0.0	-0.1	-0.2	-0.3	-0.2	-0.2	-0.2
Egypt	1.3	1.8	2.5	0.9	-4.4	-4.3	-3.8
Jordan	-0.1	-1.7	-3.0	-2.2	-1.3	-1.9	-2.5
Lebanon	-3.0	-1.2	-1.7	-2.8	-3.3	-4.3	-4.8
Mauritania	-0.3	0.0	-0.5	-0.6	-0.4	-0.3	-0.3
Morocco	1.0	1.4	-0.1	-4.6	-4.6	-4.9	-4.7
Pakistan	1.2	-5.0	-6.9	-13.9	-9.3	-3.5	-5.9
Syria	-0.4	-0.6	-0.9	-1.9	-2.4	-2.3	-2.3
Tunisia	-0.7	-0.6	-0.9	-1.7	-1.2	-1.9	-1.9
CCA	**-1.0**	**5.2**	**3.4**	**23.7**	**1.9**	**14.2**	**15.9**
Oil and gas exporters	**-0.5**	**6.6**	**6.4**	**28.8**	**4.7**	**17.3**	**19.3**
Azerbaijan	-0.9	3.7	9.0	16.5	10.2	12.6	12.9
Kazakhstan	-0.4	-2.0	-8.3	6.3	-3.4	4.2	2.9
Turkmenistan	0.4	3.4	4.0	3.6	-3.0	-0.9	0.8
Uzbekistan	0.5	1.6	1.6	2.5	0.9	1.4	2.6
Oil and gas importers	**-0.5**	**-1.5**	**-2.9**	**-5.1**	**-2.8**	**-3.1**	**-3.4**
Armenia	-0.1	-0.1	-0.6	-1.4	-1.4	-1.3	-1.1
Georgia	-0.4	-1.2	-2.0	-2.9	-1.3	-1.4	-1.5
Kyrgyz Republic	0.0	-0.1	0.0	-0.4	0.1	-0.2	-0.4
Tajikistan	0.0	-0.1	-0.3	-0.4	-0.2	-0.2	-0.4
Memorandum							
GCC	**67.9**	**204.5**	**182.8**	**256.6**	**74.9**	**101.3**	**123.6**
Maghreb	**17.4**	**57.9**	**58.9**	**64.6**	**3.7**	**14.0**	**16.6**
Mashreq	**-2.1**	**-1.8**	**-3.1**	**-6.0**	**-11.3**	**-12.9**	**-13.4**

Sources: National authorities; and IMF staff estimates and projections.

Table 16. Current Account Balance

(Percent of GDP)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	**8.2**	**16.8**	**13.6**	**13.6**	**2.0**	**3.9**	**4.6**
Oil exporters	**11.8**	**22.9**	**18.9**	**19.5**	**4.6**	**6.7**	**7.8**
Algeria	14.0	24.7	22.8	20.2	0.3	3.4	3.6
Bahrain	5.0	13.8	15.7	10.3	2.7	5.2	5.5
Iran, I.R. of	5.2	9.2	11.9	7.3	3.6	4.2	4.5
Iraq	...	19.0	12.5	12.8	-25.7	-14.4	-8.6
Kuwait	26.2	44.6	36.8	40.7	29.1	30.1	30.3
Libya	18.9	49.8	41.7	41.7	15.7	20.1	20.3
Oman	9.4	15.4	5.9	8.3	-0.6	5.8	6.1
Qatar	25.5	26.6	26.9	31.2	14.3	15.6	23.0
Saudi Arabia	13.6	27.8	24.3	27.8	6.1	6.7	6.2
Sudan	-9.5	-15.2	-12.5	-9.0	-12.9	-8.9	-7.1
United Arab Emirates	11.0	20.6	9.7	8.6	4.0	5.4	5.6
Yemen	5.3	1.1	-7.0	-4.6	-10.7	-4.9	-4.5
Oil importers	**-0.4**	**-1.6**	**-2.4**	**-4.7**	**-4.4**	**-3.5**	**-3.6**
Afghanistan, Rep. of	...	-4.9	0.9	-0.9	-1.8	0.6	-0.4
Djibouti	-2.4	-14.7	-24.9	-27.6	-17.3	-14.3	-18.0
Egypt	1.6	1.6	1.9	0.5	-2.4	-2.0	-1.6
Jordan	0.0	-11.0	-16.9	-9.6	-5.0	-7.2	-8.5
Lebanon	-15.2	-5.3	-6.8	-9.3	-9.5	-11.1	-11.2
Mauritania	-18.8	-1.3	-18.3	-15.7	-12.5	-7.6	-8.7
Morocco	2.2	2.2	-0.1	-5.2	-5.0	-5.3	-4.9
Pakistan	1.6	-3.9	-4.8	-8.5	-5.7	-2.0	-3.1
Syria	-1.3	-1.8	-2.2	-3.6	-4.5	-3.9	-3.4
Tunisia	-3.0	-1.8	-2.4	-3.8	-2.8	-4.4	-4.1
CCA	**-1.6**	**3.2**	**1.6**	**9.0**	**0.8**	**5.3**	**5.2**
Oil and gas exporters	**-0.9**	**4.7**	**3.4**	**12.5**	**2.3**	**7.2**	**7.1**
Azerbaijan	-12.2	17.6	27.3	35.5	23.6	24.1	22.2
Kazakhstan	-1.4	-2.5	-8.1	4.6	-3.2	3.2	2.0
Turkmenistan	4.1	15.7	15.5	18.7	-16.1	-4.7	3.4
Uzbekistan	3.8	9.1	7.3	8.7	2.7	3.8	6.3
Oil and gas importers	**-5.4**	**-7.4**	**-10.8**	**-14.7**	**-9.6**	**-10.2**	**-10.7**
Armenia	-6.4	-1.8	-6.4	-11.8	-16.0	-14.6	-12.6
Georgia	-8.0	-15.1	-19.7	-22.7	-11.7	-12.0	-12.5
Kyrgyz Republic	-0.1	-3.1	-0.2	-8.1	2.1	-5.4	-9.4
Tajikistan	-3.0	-2.8	-8.6	-7.7	-4.9	-3.6	-5.7
Memorandum							
GCC	**14.7**	**27.4**	**21.6**	**23.9**	**8.7**	**10.2**	**11.2**
Maghreb	**9.3**	**20.9**	**18.2**	**16.3**	**1.1**	**3.7**	**4.1**
Mashreq	**-1.5**	**-1.0**	**-1.4**	**-2.2**	**-3.8**	**-3.8**	**-3.5**

Sources: National authorities; and IMF staff estimates and projections.

Table 17. Gross Official Reserves

(Billions of U.S. dollars)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	**252.2**	**602.5**	**849.5**	**1,016.2**	**1,001.3**	**1,065.2**	**1,135.8**
Oil exporters	**192.6**	**504.9**	**735.6**	**893.9**	**866.5**	**923.9**	**986.5**
Algeria	30.9	77.8	110.2	143.1	149.0	144.7	151.8
Bahrain	1.5	2.7	4.1	3.8	3.5	3.2	2.9
Iran, I.R. of	25.9	60.5	82.9	79.6	78.0	88.9	102.2
Iraq	...	20.0	31.5	50.2	44.3	46.6	45.0
Kuwait	8.0	11.8	15.9	16.7	17.7	24.2	25.7
Libya	21.0	60.1	80.3	97.1	97.7	109.8	122.9
Oman	3.3	5.0	9.5	11.4	11.9	13.0	13.6
Qatar	2.5	5.4	9.8	9.8	18.8	19.9	21.8
Saudi Arabia[1]	73.4	225.2	305.3	441.9	408.6	432.7	455.8
Sudan	0.6	1.7	1.4	2.0	0.9	1.0	1.0
United Arab Emirates[2]	16.4	28.0	77.9	30.9	29.9	35.3	39.7
Yemen	4.2	6.8	7.0	7.3	6.2	4.6	4.2
Oil importers	**59.6**	**97.6**	**113.9**	**122.3**	**134.8**	**141.3**	**149.3**
Afghanistan, Rep. of	...	2.0	2.8	3.5	4.2	5.2	5.8
Djibouti	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Egypt	15.4	22.8	28.5	34.5	31.2	35.1	36.3
Jordan	3.8	6.2	6.9	7.7	11.1	10.7	10.9
Lebanon	7.5	11.4	11.5	18.8	27.4	29.6	31.8
Mauritania	0.1	0.2	0.2	0.2	0.2	0.2	0.3
Morocco	11.8	20.8	24.7	22.8	23.6	20.1	20.1
Pakistan	6.1	10.8	14.3	8.6	9.1	13.0	16.7
Syria	11.2	16.5	17.0	17.1	17.1	16.8	16.3
Tunisia	2.9	6.8	7.9	9.0	10.6	10.4	10.8
CCA	**8.6**	**29.2**	**33.7**	**40.1**	**46.8**	**58.6**	**76.9**
Oil and gas exporters	**7.4**	**26.3**	**29.4**	**35.9**	**40.8**	**52.5**	**70.3**
Azerbaijan	0.9	2.5	4.3	6.5	5.4	6.9	8.1
Kazakhstan	4.8	19.1	17.6	19.9	23.2	32.0	45.1
Turkmenistan	...	...	...	...	...	...	...
Uzbekistan	1.7	4.7	7.5	9.5	12.2	13.5	17.2
Oil and gas importers	**1.2**	**2.9**	**4.3**	**4.3**	**6.0**	**6.2**	**6.6**
Armenia	0.5	1.1	1.7	1.4	2.0	1.7	1.8
Georgia	0.3	0.9	1.4	1.5	2.1	2.3	2.4
Kyrgyz Republic	0.4	0.8	1.2	1.2	1.6	1.7	1.8
Tajikistan	0.1	0.1	0.1	0.2	0.3	0.4	0.6
Memorandum							
GCC	**105.0**	**278.1**	**422.5**	**514.6**	**490.4**	**528.3**	**559.4**
Maghreb	**66.6**	**165.7**	**223.3**	**272.1**	**281.1**	**285.1**	**305.9**
Mashreq	**37.9**	**56.8**	**63.9**	**78.1**	**86.8**	**92.2**	**95.3**

Sources: National authorities; and IMF staff estimates and projections.

[1]Saudi Arabia Monetary Agency gross foreign assets.

[2]Central bank only. Excludes overseas assets of sovereign wealth funds.

Table 18. Total Gross External Debt

(Percent of GDP)[1]

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	**34.4**	**32.2**	**35.5**	**30.5**	**35.7**	**30.5**	**29.4**
Oil exporters	**26.6**	**28.9**	**35.2**	**29.9**	**36.7**	**30.2**	**28.9**
Algeria	34.1	5.0	4.2	3.5	3.8	2.9	2.2
Bahrain	48.0	53.4	139.3	153.3	157.7	139.6	139.8
Iran, I.R. of	10.9	10.4	9.8	6.2	6.4	5.6	5.0
Iraq	...	212.8	174.7	110.5	136.5	41.8	39.2
Kuwait	28.1	30.4	50.2	40.9	58.5	46.2	43.4
Libya	17.5	9.9	7.8	6.3	9.3	7.2	6.5
Oman	23.3	15.5	17.2	15.2	18.9	15.4	13.3
Qatar	60.1	43.5	51.8	53.5	89.3	80.6	70.4
Saudi Arabia	11.7	11.9	19.7	17.5	23.0	22.6	22.1
Sudan	133.9	78.1	68.5	58.1	65.3	57.4	54.4
United Arab Emirates	24.8	46.0	63.0	53.4	57.0	53.1	49.4
Yemen	43.4	28.7	26.9	21.9	24.2	21.4	21.1
Oil importers	**51.6**	**42.0**	**36.5**	**32.3**	**33.2**	**31.1**	**30.6**
Afghanistan, Rep. of	...	155.0	20.7	17.5	8.1	8.1	8.3
Djibouti	59.1	56.8	63.6	60.2	59.7	58.8	55.4
Egypt	32.5	27.6	22.9	20.9	16.8	14.3	13.2
Jordan[2]	73.0	46.8	41.7	22.6	21.7	19.2	16.6
Lebanon	160.7	198.8	194.0	172.5	171.2	160.3	161.9
Mauritania	216.9	94.1	97.4	83.3	103.1	69.8	72.2
Morocco	36.1	23.9	23.7	20.6	23.2	24.1	25.0
Pakistan	39.8	28.0	27.0	27.1	32.1	31.6	31.8
Syria	83.1	27.4	21.7	16.2	16.6	14.9	13.7
Tunisia[3]	60.1	53.9	51.8	45.9	49.3	46.3	45.2
CCA	**51.6**	**54.8**	**53.4**	**48.1**	**58.5**	**52.3**	**54.0**
Oil and gas exporters	**49.9**	**57.3**	**56.3**	**50.1**	**59.7**	**51.9**	**53.4**
Azerbaijan[4]	18.5	9.4	7.7	6.5	7.9	8.9	8.7
Kazakhstan	73.0	91.4	93.9	79.5	103.6	86.4	87.2
Turkmenistan	19.5	3.3	2.4	3.2	2.7	8.9	16.3
Uzbekistan	37.0	22.1	16.7	13.1	15.3	15.2	17.2
Oil and gas importers	**61.3**	**36.9**	**34.2**	**34.4**	**50.4**	**56.0**	**58.9**
Armenia	37.6	18.9	15.7	13.5	34.7	38.4	44.8
Georgia	47.2	34.6	38.6	44.4	58.4	66.4	67.7
Kyrgyz Republic	107.1	77.7	60.2	45.1	59.6	67.0	67.2
Tajikistan	90.1	42.7	40.9	46.3	51.6	54.1	55.9
Memorandum							
GCC	**20.7**	**26.0**	**39.9**	**35.6**	**46.4**	**42.3**	**40.0**
Maghreb	**36.4**	**17.4**	**16.1**	**13.5**	**16.7**	**14.6**	**14.1**
Mashreq	**61.2**	**50.7**	**44.3**	**36.9**	**34.9**	**31.4**	**30.3**

Sources: National authorities; and IMF staff estimates and projections.
[1]Nominal GDP is converted to U.S. dollars using period average exchange rate.
[2]Excludes deposits of nonresidents held in the banking system.
[3]Includes bank deposits of nonresidents.
[4]Public and publicly guaranteed debt, as private debt data are not reliable.

Table 19. Capital Adequacy Ratios

(Percent of risk-weighted assets)

	Dec-06	Dec-07	Dec-08	Dec-09	Mar-10	Jun-10
Oil exporters						
Algeria	15.2	12.9	16.5	21.9	…	…
Bahrain	22.0	21.0	18.1	19.6	…	…
Iran, I.R. of	9.9	9.1	6.5	…	…	…
Iraq	…	…	…	…	…	…
Kuwait	21.2	19.4	17.1	18.0	…	…
Libya	11.6	11.8	12.2	14.5	…	…
Oman	17.2	15.8	14.7	15.5	…	…
Qatar	14.3	13.5	15.5	16.1	…	…
Saudi Arabia	21.9	20.6	16.0	16.5	…	…
Sudan	19.7	22.0	10.5	7.1	9.3	8.0
United Arab Emirates	16.6	14.0	13.3	19.2	20.3	20.4
Yemen[1]	12.0	8.7	14.6	14.6[2]	18.8	18.8
Oil importers						
Afghanistan, Rep. of	…	…	…	…	25.8	…
Djibouti	…	…	…	…	…	…
Egypt	14.7	14.8	14.7	15.1	…	…
Jordan	21.4	20.8	18.4	19.6	…	…
Lebanon[3]	25.0	12.5	12.1	12.4	…	…
Mauritania	…	28.2	31.9	…	…	…
Morocco	12.3	10.6	11.2	11.8	…	…
Pakistan	11.3	12.3	12.3	14.1	13.7	…
Syria	7.0	6.5	6.5	6.5	…	…
Tunisia	11.8	11.6	11.7	12.4	…	…
CCA						
Armenia	34.9	30.1	27.5	28.3	28.6	28.9
Azerbaijan	…	19.9	19.6	17.7	17.3	17.2
Georgia	…	30.0	24.0	25.6	24.6	23.3
Kazakhstan	15.0	14.2	14.9	-8.2	-3.7	-2.8
Kyrgyz Republic	28.5	31.0	32.6	33.5	31.7	25.4
Tajikistan	…	19.4	24.2	25.4	23.9	23.8
Turkmenistan	…	15.9	30.9	16.5	13.8	…
Uzbekistan	23.6	23.8	23.2	23.4	23.2	

Source: National authorities.
[1]Data refer to all banks except the Housing Bank and CAC Bank. 2006 includes CAC Bank data.
[2]Audited financial statements.
[3]From 2007 onward, based on revised risk weights (Basel II).

Table 20. Return on Assets

(Percent)

	Dec-06	Dec-07	Dec-08	Dec-09	Mar-10	Jun-10
Oil exporters						
Algeria	0.9	1.1	1.2	1.4	…	…
Bahrain	2.1	1.2	1.3	1.2	…	…
Iran, I.R. of	…	…	…	…	…	…
Iraq	…	…	…	…	…	…
Kuwait	3.7	3.6	0.9	0.8	…	…
Libya	0.5	0.4	0.6	0.7	…	…
Oman	2.3	2.1	1.7	1.4	…	…
Qatar	3.7	3.6	2.9	2.6	…	…
Saudi Arabia	4.0	2.8	2.3	2.0	…	…
Sudan	3.6	3.7	3.0	3.8	1.0	…
United Arab Emirates	2.3	2.0	1.8	1.3	1.9	…
Yemen	1.2	1.6	1.0	0.9		
Oil importers						
Afghanistan, Rep. of	…	…	…	1.2	1.4	…
Djibouti	…	…	…	…	…	…
Egypt	0.8	0.9	0.8	0.8	…	…
Jordan	1.7	1.6	1.4	1.1	…	…
Lebanon[1]	0.9	1.0	1.1	1.1	1.0	…
Mauritania	…	4.0	3.1	1.4	…	2.0
Morocco	1.3	1.5	1.2	1.1	…	…
Pakistan	1.9	1.5	0.8	0.9	1.1	…
Syria	2.0	2.4	1.8	1.3	…	…
Tunisia	0.7	0.9	1.0	1.0	…	…
CCA						
Armenia	3.6	2.9	3.1	0.7	1.3	1.8
Azerbaijan	…	1.9	1.8	2.2	1.3	1.2
Georgia[2]	…	1.9	-2.6	-0.8	0.7	0.9
Kazakhstan	…	2.3	0.3	-24.1	-18.5	-3.0
Kyrgyz Republic	3.4	4.4	3.8	2.5	2.4	-11.2
Tajikistan	…	2.7	2.0	0.8	0.3	-1.7
Turkmenistan	…	4.1	4.3	3.6	2.9	…
Uzbekistan	0.8	1.3	1.4	1.5	0.3	

Source: National authorities.
[1]After tax.
[2]Cumulative and annualized.

Table 21. Nonperforming Loans

(Percent of total loans)

	Dec-06	Dec-07	Dec-08	Dec-09	Mar-10	Jun-10
Oil exporters						
Algeria	34.2	35.5	28.2	21.8	…	…
Bahrain	4.8	6.0	2.3	3.9	…	…
Iran, I.R. of	9.9	15.7	18.3	…	…	…
Iraq	…	…	…	…	…	…
Kuwait	3.9	3.2	5.3	9.7	…	…
Libya	25.4	27.2	19.2	16.9	…	…
Oman	4.9	3.2	2.1	3.5	…	…
Qatar	2.2	1.5	1.2	1.7	…	…
Saudi Arabia	2.0	2.1	1.4	3.3	…	…
Sudan	19.4	26.0	22.4	20.5	19.1	18.6
United Arab Emirates	6.3	2.9	2.5	4.8	5.7	…
Yemen[1]	23.0	19.5	14.2[2]	13.9	13.9	14.0
Oil importers						
Afghanistan, Rep. of	3.4	0.7	1.2	0.7	0.5	…
Djibouti	…	…	…	…	…	…
Egypt[3]	18.2	19.3	14.8	13.4	…	…
Jordan	4.3	4.1	4.2	6.7	…	…
Lebanon	13.5	10.1	7.5	6.0	5.4	…
Mauritania	…	32.4	28.0	28.0	…	27.0
Morocco	10.9	7.9	6.0	5.5	…	…
Pakistan	8.3	7.6	10.5	12.2	13.1	…
Syria	4.7	5.3	5.1	5.1	…	…
Tunisia	19.3	17.6	15.5	13.2	…	…
CCA						
Armenia	2.5	2.4	4.4	4.8	5.6	4.8
Azerbaijan	…	3.0	3.3	3.5	3.8	3.8
Georgia	…	0.8	4.1	6.3	6.6	6.9
Kazakhstan[4]	…	…	5.2	21.2	25.1	25.3
Kyrgyz Republic	6.2	5.3	5.3	8.2	7.9	13.7
Tajikistan[5]	4.1	2.8	5.4	10.4	14.0	13.5
Turkmenistan	…	0.4	0.1	0.1	0.2	…
Uzbekistan	3.0	2.8	3.0	1.2	1.9	…

Source: National authorities.
[1]Data refer to all banks except the Housing Bank and CAC Bank. 2006 includes CAC Bank data.
[2]Audited financial statements.
[3]Provisioning to NPLs surpassed 100 percent as of Dec. 2009 and data refers to end of fiscal year.
[4]90-day basis.
[5]Overdue by 30 days or more.

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