

1. MENAP Oil Exporters: Benefiting from High Oil Prices amid Growing Risks

MENAP oil exporters have benefited from high oil prices, which have provided a boost to economic activity, directly and indirectly, through the fiscal space that has facilitated additional spending in 2011–12. Accommodative fiscal and monetary policies remain appropriate in most countries in light of the still-fragile recovery, the modest rebound in credit growth, and the lack of signs of overheating. Over the longer horizon, fiscal and monetary policy should be redesigned to enhance the ability to smooth consumption and absorb shocks, safeguard long-term sustainability, and bolster financial stability. Structural reforms should aim to boost diversification, generate employment, and increase access to economic opportunities.

Gradual Recovery Continues

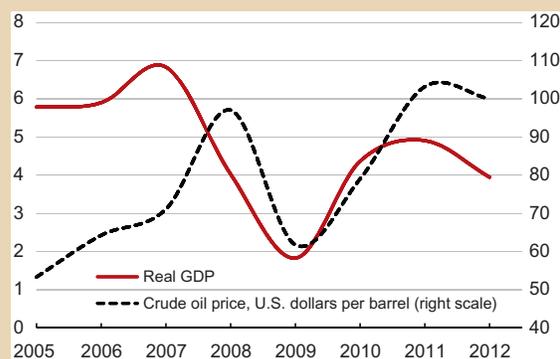
MENAP oil exporters will experience a GDP upturn of nearly 5 percent in 2011, followed by moderation in 2012. Most of this growth is driven by the high level of activity in the GCC, where GDP growth is projected at 7 percent in 2011. The GCC has been largely shielded from the negative impact of social unrest in the region; instead it has benefited from higher oil prices (31 percent higher than in 2010) and increased export volumes. In addition, Kuwait, Saudi Arabia, and the United Arab Emirates stepped up their oil production to make up for the shortfall from Libya, and Qatar ramped up its capacity to produce liquefied natural gas. These initiatives generated positive spillovers that helped stabilize international energy markets (Annex 1.1).

This aggregate behavior is largely driven by fluctuations in oil production and oil prices (Figure 1.1). Following the cutback in 2009, oil GDP growth recovered in 2010 and is expected to accelerate temporarily in 2011 in response to the shortfall from Libya and to increasing oil prices.¹ In contrast, non-oil growth is expected to remain relatively stable at close to 4½ percent through 2012 (Figure 1.2).

Prepared by Adolfo Barajas with input from country teams.

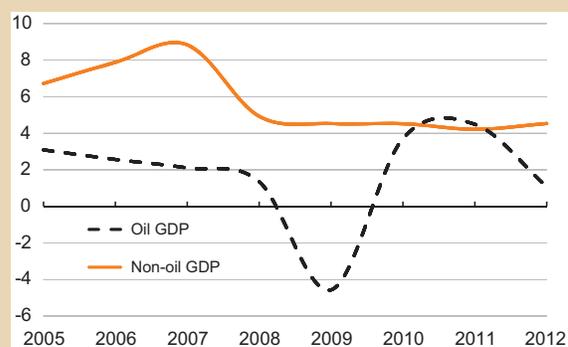
¹ Data for 2011 onward exclude Libya because of the marked uncertainty surrounding the country's internal conflict and potential resolution thereof.

Figure 1.1
On the Back of High Oil Prices, the Recovery Continues
(Real GDP growth; percent)



Sources: National authorities; and IMF staff estimates.

Figure 1.2
Strong Fluctuations in Oil Sector GDP, Non-Oil Remains Steady
(Real GDP growth; percent)



Sources: National authorities; and IMF staff estimates.

Increased oil revenues have in turn created additional fiscal space in the GCC, facilitating new spending to accelerate progress in achieving social objectives and continuation of longer-term public investment. As a consequence, non-oil activity is projected to grow by 5¼ percent in 2011–12. The exception to this broadly benign outlook for the GCC is Bahrain, where unrest has led to disruptions in transportation, tourism, construction, and the financial sector, slowing GDP growth to 1½ percent.

Other oil exporters in the region have been hit by a range of adverse domestic shocks. The internal conflict in Libya has had a devastating impact on economic activity in 2011, and even under fairly optimistic circumstances the recovery in 2012 will only be partial (Box 1.1). The independence of South Sudan will dramatically reduce oil revenues for Sudan, severely constraining fiscal stimulus in the near term (Box 1.2). In Yemen, the political crisis and associated damage to a key oil pipeline are weighing heavily on growth. A technical

Box 1.1

Libyan Revolution: Economic Impact and Challenges Ahead

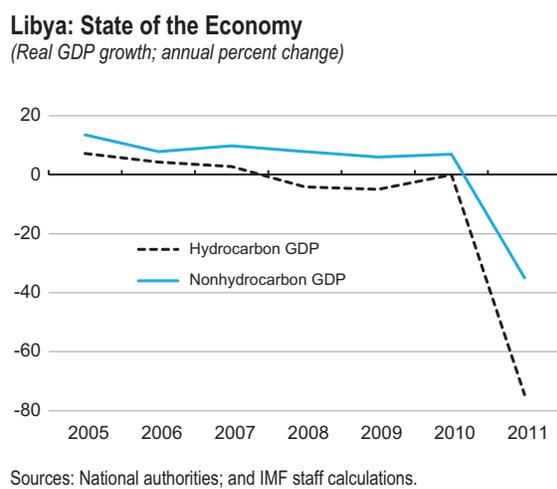
Revolution in Libya appears to be nearly over. The violence prompted imposition of United Nations Security Council sanctions on Libya on February 26, and their intensification on March 17. The conflict has had a severe impact on economic activity heavily dependent on hydrocarbons, which account for more than 70 percent of GDP and more than 95 percent of exports. Crude oil production, previously at 1.65 million barrels per day, has nearly stopped—declining by about 95 percent in June compared with a year earlier. The international sanctions and consequent denial of access to foreign exchange have limited the ability to finance imports of goods and services, resulting in severe disruptions in the nonhydrocarbon sectors of the economy. Real GDP is expected to contract by more than 50 percent in 2011 (see figure).

The conflict in Libya has had significant spillovers globally and into neighboring countries. Prior to the conflict, Libya accounted for 2 percent of global oil production, and the loss of Libyan oil exports created a temporary shortfall in the global market. In addition, Libya hosted approximately 1½ million migrant workers (mostly from Egypt and Tunisia), and migrants' return home has reduced remittances and added to the already large pool of unemployed in Libya's neighbors.¹ More generally, the intensification of regional turmoil due to the Libyan conflict has further contributed to driving tourists and foreign investors away from the region.

The end of the conflict can set the stage for an economic rebound, although rehabilitation of the hydrocarbon complex may take considerable time. While the immediate priority is to avoid a humanitarian crisis, it is also critical to restart hydrocarbon production and pursue an agenda for reconstruction and reform, which will include moving to stabilize the currency; reestablishing a payments system; and initiating institutional reforms in support of inclusive and sustainable growth.

Prepared by Ahmed Al-Darwish, Serhan Cevik, Ralph Chami, and Joshua Charap.

¹ Estimates of returning migrants as a percentage of the labor force in the home countries are 2 percent in Tunisia, 1.6 percent in Niger, 1.1 percent in Chad, and 0.5 percent in Egypt.



Box 1.2

Sudan and South Sudan: Beyond the Breakup

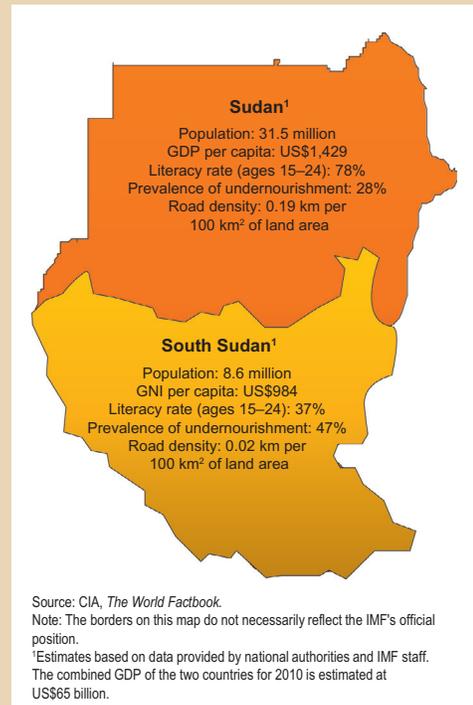
On July 9, 2011, South Sudan became an independent state, having officially seceded from Sudan after decades of civil war. Sudan faces the loss of 75 percent of oil production to South Sudan, where the majority of oil fields are located.¹ South Sudan relies on oil, transported via pipelines through the north, for 98 percent of government revenue, but faces a potentially rapid decline in production as known reserves dwindle. Both countries will need to look beyond oil for sources of growth.

In Sudan, a marked increase in the country's oil production over the past decade has lifted growth rates, raised living standards, and brought in revenue, but it has had limited positive spillovers onto the country's non-oil sector, with the result that a large segment of the population lives in poverty (see map). Sudan's oil revenues are set to decline significantly, barring new discoveries, which will exacerbate domestic and external imbalances. With oil accounting for half of government revenue and 90 percent of exports before the breakup, the economy will need to diversify. To this end, the development of agriculture and light industries holds considerable potential. The service sector and extractive industries other than oil, such as gold mining, could also play a role. Sudan will need to exercise fiscal restraint by streamlining nonpriority spending, reducing fuel subsidies, and enhancing revenue. With external debt at end-2010 of about US\$39 billion, Sudan has been in debt distress for many years.

South Sudan has applied for IMF membership (Sudan is already a member) and is benefiting from technical assistance. It is at a very early stage of development, scoring lower than most sub-Saharan African countries on almost all Millennium Development Goal indicators.² Its human and physical capital levels are extraordinarily low, and literacy and road density rates rank below those of neighboring countries despite higher income levels. At about US\$1,000, South Sudan's per capita income is more than twice the average for neighboring countries. However, this difference is the result of only recent increases in oil production, which currently represents about two-thirds of GDP. Production has already started falling from its 2009 peak of about 360,000 barrels per day and, barring new discoveries or improved recovery, it is likely to halve by 2020.

Thus, there is a small window of opportunity to put the oil windfall to good use. However, given absorptive capacity constraints, investment must take place gradually while the oil wealth is saved and capacity improved. An immediate challenge is for the country to establish the credibility of its macroeconomic policy framework, including monetary operations.

For both countries, future prosperity depends largely on increased economic cooperation. As part of the international effort to help both countries, the IMF is playing a central advisory role in the areas of central banking, public financial management, and macroeconomic policy formation.



Prepared by Alberto Behar and Lisa Dougherty-Choux.

¹ Under the 2005 Comprehensive Peace Agreement, oil proceeds from fields located in the south were equally split between Sudan and South Sudan. The extent of future revenue sharing and the terms of transit are a matter of negotiation.

² See IMF, April 2011 *Regional Economic Outlook: Middle East and Central Asia*, Box 1.2.

Table 1.1

New Spending Measures Announced in 2011*(Percent of GDP)*

		Expenditure measures enacted and planned for 2011 and 2012				Total impact of the policies
		Wages	Subsidies	Other current	Capital	
Algeria	2011	1.5	3.0	...	...	4.5
Iraq ¹	2011	2.9	0.7	...	...	3.6
	2012	1.4	...	...	...	0.7
Kuwait	2011	...	...	2.8	0.4	3.2
	2012	...	...	...	0.5	0.5
Oman	2011	1.2	...	0.4	2.5	4.0
	2012	1.0	...	0.3	2.5	3.9
Qatar ²	2011	...	...	...	...	...
	2012	3.0	...	...	...	3.0
Saudi Arabia	2011	0.7	0.3	4.4	...	5.5
	2012	0.4	...	...	1.2	1.7

Sources: National authorities; and IMF staff calculations.

¹For Iraq in 2012, the impact of the spending policies is partially offset by a measure increasing trade tax revenue by 0.7 percent of GDP.²Tentative estimates of the measure announced in September 2011.

stoppage at major oil refineries in Algeria is projected to contribute to a 1½ percent decline in oil GDP in 2011, offset by vigorous non-oil activity led by continued fiscal stimulus. Finally, the ambitious energy subsidy reform initiated in Iran at the end of 2010 is expected to result in a slowdown in economic activity as enterprises adjust to an environment of markedly higher energy prices. This negative impact appears, however, to be mitigated to some extent by compensatory payments to households, which are buoying domestic demand.

Fiscal Expansion Continues, with New Vigor in the Social Sector

As fiscal space widened, several countries announced spending programs early in the year covering a wide spectrum of measures including subsidies, wages, and capital expenditure (Table 1.1), often in addition to stimulus provided earlier. Of particular note are the Saudi Arabian multiyear spending packages announced in February and March (equivalent to 19 percent of 2011 GDP). The bulk of the 2011 spending comprises one-time transfers to public workers and to institutions involved in housing, social, and small and medium-

sized enterprise finance, whereas expenditures in subsequent years will be highly concentrated in capital spending and directed mostly to the housing sector. Sizable additional spending plans were announced in Algeria, where food and housing subsidies were increased by 3 percentage points of GDP, and a number of initiatives were put in place to support employment. Iraq announced additional spending of about 3½ percent of GDP in 2011 and close to 1 percent of GDP in 2012, most of which will be for public-sector wages. Kuwait has expanded spending plans this year by about 3¼ percent of GDP, mostly comprising transfers to households: the Amiri grant provides US\$3,600 in cash to each Kuwaiti citizen and free essential food items for 18 months beginning in February 2011, with the remainder targeted at capital expenditures in the context of the Development Plan. In September, Qatar announced substantial increases in public-sector salaries and pensions for 2012, estimated at more than 3 percent of GDP.

As a result, for MENAP oil exporters as a whole, non-oil fiscal deficits are projected to widen by more than 2½ percentage points of non-oil GDP in 2011, and to contract by only 2 percentage points in 2012. In the GCC, the cycle is even more pronounced. There, the non-oil deficit is set to increase by more

than 5 percentage points of non-oil GDP in 2011, and then revert by almost 5 percentage points in 2012. Successive years of ramped-up spending will leave these countries with a non-oil deficit 10 percentage points higher in 2011 than in 2008, and a striking 24 percentage points of non-oil GDP higher than in 2006 (Figure 1.3). Sudan and Yemen, in contrast, have limited fiscal space, and will be further constrained by falling oil revenues. Their spending in 2011 will remain well below precrisis levels (Figure 1.4).² A spending contraction by 3½ percentage points of GDP is projected for Sudan over 2011–12, and Yemen will face a significant cut in expenditures—particularly on infrastructure.

Fiscal, External Balances Improve despite Higher Spending

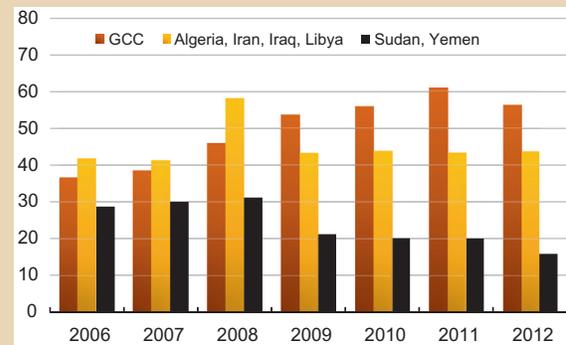
At current projected oil prices and levels of production, revenue gains will more than offset the high levels of public spending. For MENAP oil exporters, the overall fiscal balance will improve by close to 2 percentage points to 4½ percent of GDP in 2011, and then fall by 1 percentage point in 2012. As expected, the 2011 improvements will be more pronounced for the GCC, amounting to 3½ percentage points of GDP (Figure 1.5).

Similarly, oil export revenues are projected to increase more rapidly than import outlays. The external current account balance is projected to improve by more than 4 percentage points to 15 percent of GDP, then drop in 2012 for the oil exporters as a whole, and by 5½ percentage points in the GCC (Figure 1.6).

Improved external current account balances will allow oil exporters to strengthen their investment positions abroad, with the balance on the capital and financial accounts peaking at US\$163 billion in 2011, more than 60 percent higher than the level

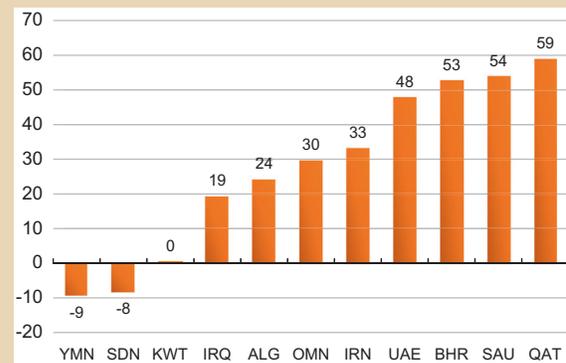
² Spending in Kuwait is only 1 percent higher than in 2008, mainly because of a large payment to recapitalize social security in 2008. After this payment is factored out, as well as a smaller one in 2011, expenditures in 2011 are 25 percent higher than in 2008.

Figure 1.3
Non-Oil Fiscal Deficits Have Been Widening in Most Countries
(Percent of non-oil GDP)



Sources: National authorities; and IMF staff estimates.

Figure 1.4
Most Oil Exporters Have Ramped Up Spending
(2008 to 2011; percent change; total government expenditure in U.S. dollars)



Sources: National authorities; and IMF staff estimates.

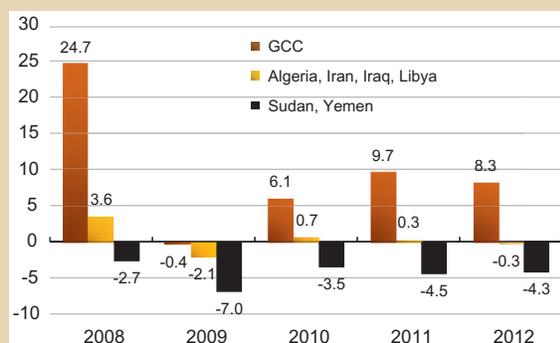
registered in 2008, and more than five times the average for 2000–05. These developments are driven by the GCC, with outward net investment—including through sovereign wealth funds—reaching US\$174 billion in 2011. In contrast, the non-GCC countries will register a net capital inflow of US\$11 billion, similar to the volume received in 2010.

In addition to providing foreign investment flows to the rest of the world, the oil exporters—and the GCC in particular—will continue to be a source of positive spillovers both within and outside the MENA region, through imports and outward remittances. The GCC contributes about 10 percent

Figure 1.5

Despite Higher Spending, Fiscal Balances Improve in Most Countries

(Percent of GDP)

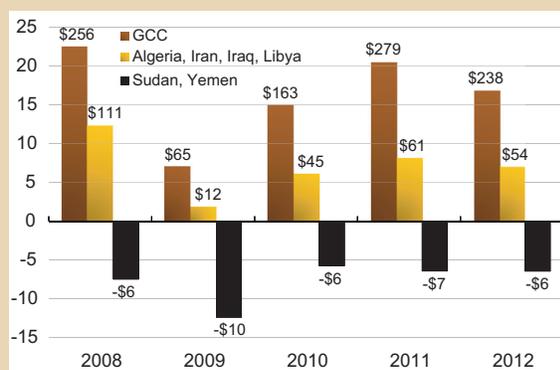


Sources: National authorities; and IMF staff estimates.

Figure 1.6

Current Account Balances Improve Further

(Percent of GDP and billion U.S. dollars)



Sources: National authorities; and IMF staff estimates.

of worldwide remittances, and its imports represent close to 3 percent of global imports.

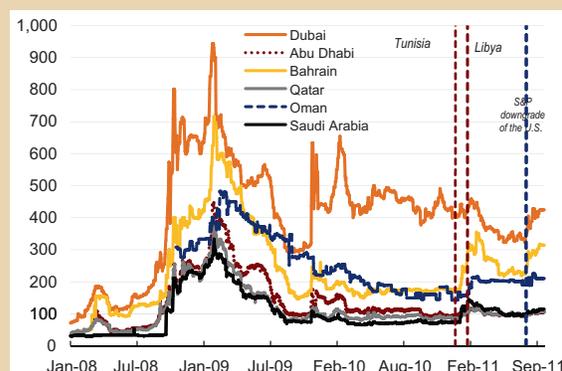
Financial Conditions Point to Increased Regional, Global Risk

Despite the generally favorable outlook for these economies, the Arab Spring uprisings in early 2011 and the sovereign debt difficulties encountered in the euro area and the United States resulted in heightened sovereign risk, as reflected in credit default swap (CDS) spreads. CDS spreads rose for all countries during the first quarter of 2011 and again in early August, although not nearly as sharply as during the

Figure 1.7

Sovereign Risk Levels Still Elevated

(Credit default swap spreads; basis points: Jan 1, 2008–Sep 26, 2011)



Source: Markit.

aftermath of the Lehman Brothers and Dubai World events. Most affected was Bahrain, with an increase of more than 180 basis points between mid-January and mid-March, then another of 60 basis points during the first two weeks of August. For all countries, the 2011 shocks interrupted a gradual decline in spreads that began in early 2009, when spreads reached historical highs. To date, no country’s risk level has returned to pre-Lehman levels (Figure 1.7).

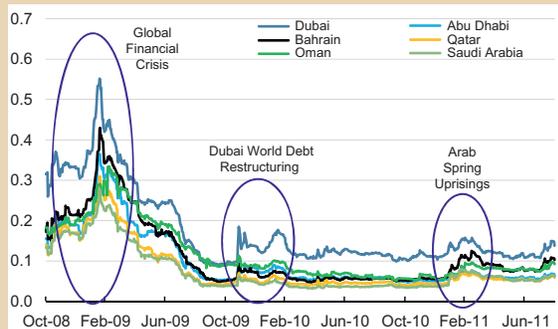
The probability that distress from other countries in the region could spill over onto a given country can be measured by a “spillover coefficient” constructed from CDS spreads.³ This indicator shows three distinct episodes in which global or regional spillovers were magnified: (1) the Lehman Brothers bankruptcy, when the coefficient reached almost 60 percent for Dubai, more than 40 percent for Bahrain, and 30 percent for Saudi Arabia; (2) the Dubai World event, when it reached 20 percent for Dubai and nudged upward slightly

³ Based on analysis conducted by Arthur Ribeiro da Silva. For a full description of the methodology and data employed, see IMF, Middle East and Central Asia Department, *Gulf Cooperation Council: Enhancing Economic Outcomes in an Uncertain Global Economy*, Chapter 5, “Credit Default Swaps and Distress Dependence in the GCC,” October 2011. More specifically, the spillover coefficient reported in Figure 1.8 measures the degree to which a given country could suffer contagion from distress in a group of 12 countries (10 in MENA, plus Kazakhstan and Pakistan).

for Abu Dhabi and Bahrain; and (3) the Arab Spring, when it reached, and even surpassed, 10 percent for several countries in February 2011 (Figure 1.8). A decomposition of the spillover coefficient shows that two countries—Bahrain and Egypt—accounted for about one-third of the financial spillovers in the region during the early part of the year.

Stock markets for the most part also retreated in 2011, interrupting a steady recovery that had commenced during the second half of 2010. As with the widening of CDS spreads, stock markets declined markedly in response to events surrounding the Arab Spring during the first quarter of 2011, the euro area debt issues, and the U.S. credit rating downgrade in early August. By the end of September, equity indices remained well below pre-Lehman crisis levels, by as much as 70 percent in Dubai (Figure 1.9). The exception is Iran, where the main stock index has risen rapidly and continuously since its post-Lehman trough in early 2009, by more than 200 percent. Driving this meteoric rise is the country’s large-scale privatization program. Low real estate prices and real interest rates also played a role. Despite the rapid increase in the stock index, the price-earnings ratio is still low by international standards, registering about 6 at end-2010—in contrast to 10–15 in Brazil and Russia, close to 20 in India, and

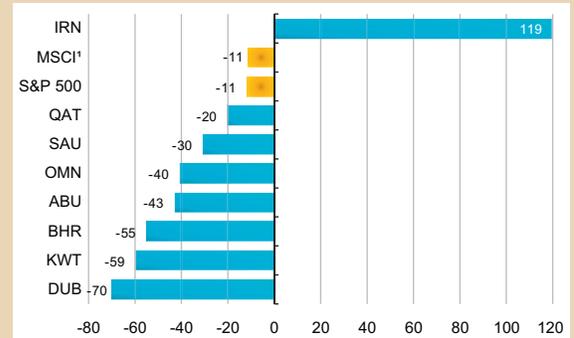
Figure 1.8
GCC Countries: Spillover Coefficient from Financial Distress in Other MENA Countries
(Probability)



Sources: Markit; and IMF staff calculations.

Figure 1.9
Stock Market Indices Still Not Back to Pre-Lehman Levels

(Percent change from Aug 31, 2008, to Sep 26, 2011)



Source: Bloomberg.
 *Emerging markets index.

15 in Egypt—which suggests that the market is not yet overvalued.⁴

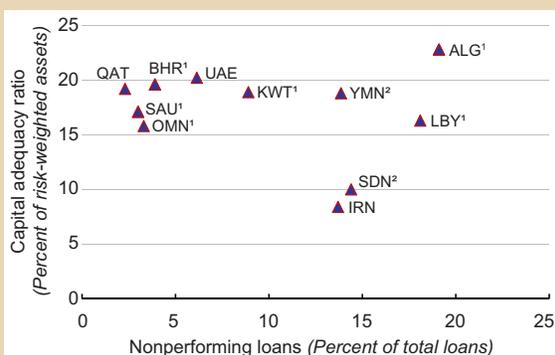
Banks Gain Strength, but Credit Recovery Remains Subdued

As economic activity continues to pick up, financial sectors are gradually recovering. GCC banks in particular, which showed considerable resilience during the global crisis, are now registering capital adequacy ratios of between 15 percent (Oman) and nearly 20 percent (United Arab Emirates and Qatar, supported by the government), with nonperforming loans of less than 10 percent. In Kuwait, the nonperforming loan ratio fell from a peak of 11 percent in 2009 to 9 percent at end-2010, partly as a result of substantial write-downs by several banks (Figure 1.10).

For other countries, nonperforming loans continue to be high—in excess of 13 percent. Capitalization appears sufficient, with few exceptions. Actions are needed to address several pressing issues: resolution of nonperforming loans in the state banks in Algeria, restructuring of two state-owned banks in

⁴ See IMF Country Report No. 11/241, August 2011.

Figure 1.10

Financial Stability Improving, but Vulnerabilities Still Present

Source: National authorities.

¹December 2010.²December 2009.

Iraq, and enhancement of capitalization and loan provisioning in Iran and Sudan.

While financial soundness indicators are moving in the right direction, private-sector credit growth remains cautious, as was expected.⁵ The postcrisis credit crunch experienced throughout the region was the result of demand factors—weak economic activity—and supply factors related to a collapse in funding and increased risk aversion on the part of banks. MENAP oil exporters are now seeing an incipient recovery in economic activity and in deposits, but credit growth has lagged (Figure 1.11). Even in a few countries where bank credit is gaining strength—in Qatar in particular and, to a lesser extent, in Saudi Arabia and Oman—credit growth is still relatively modest compared to deposit growth. Credit sluggishness and the downward trend in loan-deposit ratios stem from banks' lingering risk aversion and tighter prudential regulation on real estate and consumption credit in some countries. Some heightened caution in lending may be welcome in light of the difficulties encountered by

⁵ See IMF, May 2010 *Regional Economic Outlook: Middle East and Central Asia*, Chapter A.3, "Reviving Bank Credit in MENA." Historical analysis of credit boom-bust cycles in the MENA region indicate that, on average, it takes three years for credit growth to recover to normal rates following a credit bust.

banking systems as a result of excessive precrisis credit growth.

Outside the GCC, credit growth picked up in some countries. It accelerated to an annual rate of 37 percent in Iran during the first quarter of 2011, partly in response to policies aimed at promoting housing finance. In Algeria, credit growth briefly accelerated to more than 20 percent in April, only to return to 10 percent by the middle of the year. After surging by 90 percent in 2010, growth in credit extended by Iraqi banks slowed to a more moderate 20 percent during the first quarter of 2011.

Inflationary Pressures Modest amid High Commodity Prices

For the most part, inflation remains subdued, averaging 10½ percent as of June 2011 (Figure 1.12). With the exception of Sudan, Yemen, and Iran—the latter two affected by a step adjustment in prices as energy subsidies are being reduced—oil exporters are registering single-digit inflation, and seven of these are still recording inflation at less than 5 percent. Furthermore, core inflation remains moderate, at just over 4 percent on average, suggesting that second-round effects of the increase in imported food prices have yet to surface.

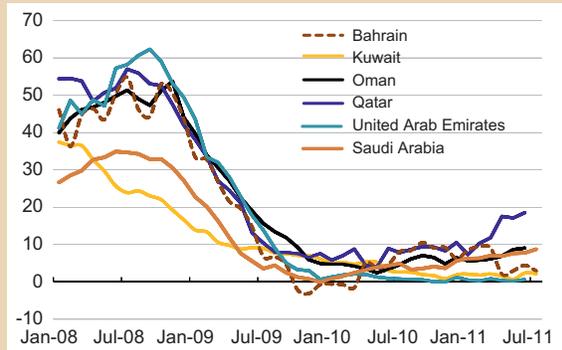
Echoes of 2008, but with Key Differences in Risk Tolerance

In some regards, external conditions facing the oil exporters are akin to those in 2008, prior to the Lehman bankruptcy—and so are policy stances. Oil prices increased by 38 percent on average in 2008, similar to the 31 percent rise projected for 2011, also in the context of high—albeit stabilizing—commodity prices.⁶ A loosening of

⁶ After rising by more than 28 percent in 2010, the IMF nonfuel commodity index increased further—by more than 9 percent to April 2011—and has subsequently fallen; at end-August 2011 the index was 2 percent higher than at end-2010.

Figure 1.11

GCC Credit Growth Is Still Mostly Subdued ...
(Credit to private sector; year-over-year growth, percent)



Source: National authorities.

... Although Deposits Are Picking Up
(Total deposits; year-over-year growth, percent)

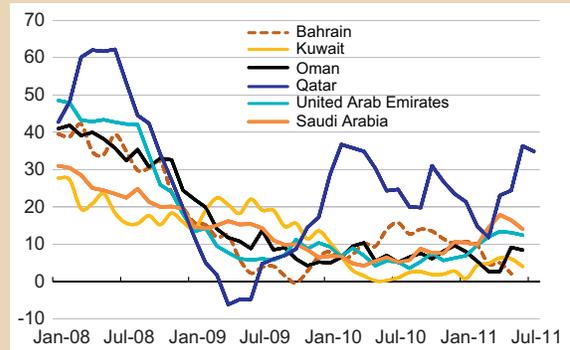
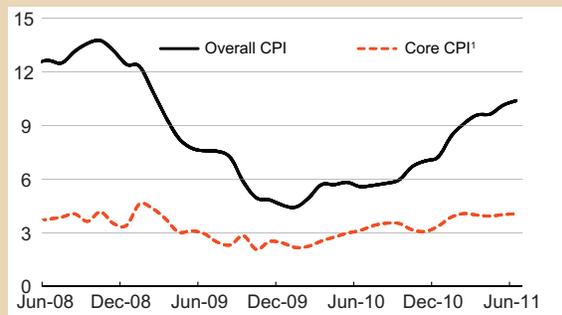


Figure 1.12

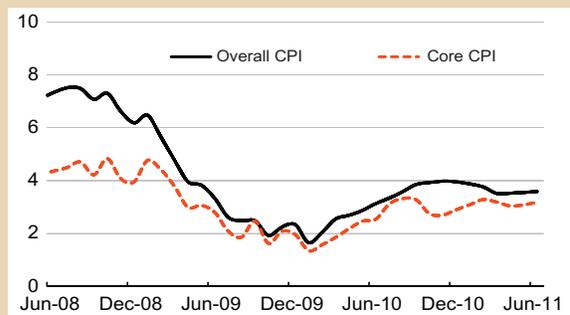
Some Inflationary Pressures in the Oil Exporters ...
(Consumer price index, average; year-over-year growth)



Source: National authorities.

¹Excludes Algeria, Iran, Libya, and Yemen because of data limitations.

... But Inflation Still Subdued in the GCC
(Consumer price index, average; year-over-year growth)



monetary conditions in advanced economies in 2008 led to a global low-interest-rate environment, as is currently the case. As in 2008, many oil exporters have responded to the 2011 revenue windfall by increasing spending and thereby providing additional stimulus to the non-oil sector. Finally, the monetary policy response has been similar during both periods, in part because of the U.S. dollar-pegged regimes in many of these countries.

However, there are key differences in 2011:

- Fiscal vulnerability has increased substantially relative to 2008, as break-even oil prices—the prices at which the fiscal balance is zero

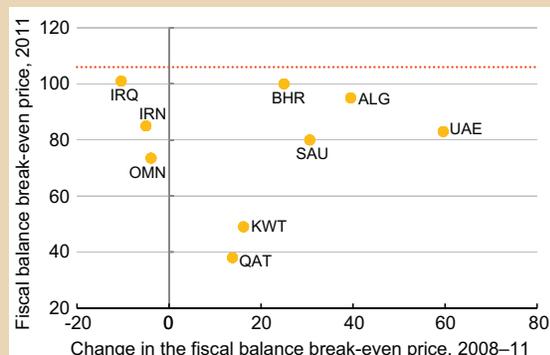
given the level of expenditure and non-oil revenues—have risen steadily and are now approaching observed oil prices (Figure 1.13).⁷ Although most oil-exporting countries do not hold significant amounts of government debt, some have registered relatively high and increasing levels. In Bahrain, for example, debt has more than doubled to a projected 34 percent of GDP in 2011, and in Sudan it is projected at 78 percent of GDP in 2011,

⁷ Although break-even prices have increased by more than US\$20 per barrel since 2008 for several countries, the average price is only US\$6 per barrel higher.

Figure 1.13

Fiscal Break-Even Oil Prices Have Been Creeping Upward

(U.S. dollars per barrel)

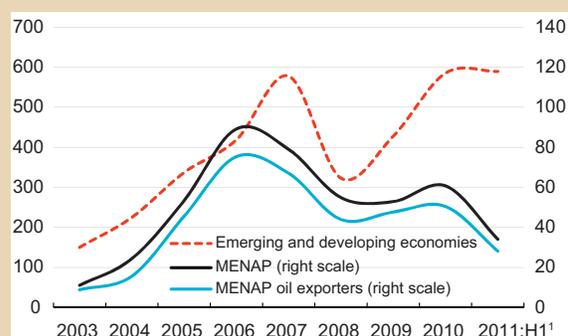


Sources: National authorities; and IMF staff estimates.

Figure 1.14

International Issuance of Bonds, Loans, and Equity

(Billion U.S. dollars)



Source: Dealogic.
¹Annualized.

6 percentage points of GDP higher than in 2008.

- External downside risks to the outlook are now more visible and immediate, particularly in light of the Arab Spring and the increased perception of fragility in the global recovery.
- Capital flows into the region—and to oil exporters in particular—are well below their 2008 levels. Although a search for yield has spurred increases in international capital flows to emerging economies in 2010 and 2011, MENAP countries have not benefited to the same degree.⁸ While international issuance of bonds, loans, and equity by emerging economies increased by 37 percent in 2010 and by 17 percent during the first half of 2011—compared with the first half of 2010—for MENAP oil exporters issuance of securities rose by only 6 percent in 2010 and declined by 38 percent during the first half of 2011 (Figure 1.14).

⁸ This development is in line with a previously identified trend; see IMF, May 2010 *Regional Economic Outlook: Middle East and Central Asia*, Chapter A.4, “Capital Flows to the MENAP Region: Going Beyond Traditional Sources.”

In general, the low volumes of inflow partly reflect recent tight supply conditions related to a lower risk appetite following the Dubai World event and regional unrest; real estate market corrections in several countries; and perennial factors, such as the lack of transparency in the business environment and insufficient bond and capital market development. Demand factors are also at play as the region exports record volumes of capital, and firms are building large cash cushions.⁹

- As noted above, domestic bank credit growth remains sluggish, in contrast to the credit booms in full swing in many countries in 2008.

Looking ahead, MENAP oil exporters face considerable downside risks. The most immediate would be the direct and widespread impact of a sharp global slowdown resulting from a lack of effective action to confront debt and fiscal issues in Europe and the United States. Global oil demand would contract substantially, possibly leading to a sustained drop in oil prices.

⁹ See IMF, Middle East and Central Asia Department, *Gulf Cooperation Council: Enhancing Economic Outcomes in an Uncertain Global Economy*, Chapter 7, “GCC Corporate Vulnerabilities,” October 2011.

Other risk factors include further regional unrest and a downturn in key trading partners (for example, India and China for non-oil exports of the United Arab Emirates, and Italy and Spain for Algeria). Additional tightening of global financial conditions would be particularly damaging for some countries facing significant rollover needs over the coming months. Finally, over time, potential development of nonconventional gas production in Europe—following the recent experience of the United States—could lead to a sharp fall in demand for natural gas exports from the region.

Designing Fiscal Policy for the Long Haul

In recent years, active expansionary fiscal policy has been called upon in many MENAP oil-exporting countries in pursuit of several interrelated objectives: to support non-oil activity; to undertake investment in human and physical capital to complement private-sector activity; and to address social needs, either by offsetting the impact of higher food prices, or by filling gaps in such critical services as housing and health. Efforts are also needed to increase the effectiveness of fiscal policy and contribute to economic diversification over the longer term. Actions should focus on the following:

- In several countries—even among those with perceived ample fiscal space in the near term—some measure of fiscal consolidation will be required to bring fiscal balances in line with longer-term sustainability.
- Efforts to diversify the revenue base should be intensified. The study of a GCC-wide value-added tax is a welcome development, along with efforts to introduce or expand income and corporate taxes in some countries. All countries will require improved tax administration and a broader tax base.
- The allocation of spending should aim at maximizing long-term efficiencies and benefits to the population. In particular, the move away from product-based subsidies to targeted social

safety nets should proceed rapidly. So far, Iran's subsidy reform, which has resulted in a reduction in domestic energy consumption, has had a positive distributional and environmental impact. In general, periodic review of public investment programs is needed to ensure their efficiency and implementation.

- Designing government budgets within multiyear frameworks would be beneficial to delink spending from the volatility of revenues and to safeguard long-term sustainability. Establishment of macrofiscal units within ministries of finance can be a first step in such a policy design. Furthermore, international experience shows that fiscal rules can be a useful framework, especially with effective buy-in by society at large.

Regarding fiscal policy:

- Across-the-board public-sector wage increases may be crowding out priority spending and leading to budget rigidities as they become entrenched over time.
- Reliance on energy subsidies has contributed to rapidly rising domestic energy consumption, which raises the question of efficiency in production technology, as well as environmental concerns. Annex 1.1 indicates that net exports of oil and natural gas from the Middle East are likely to decline over time if current consumption trends persist.
- In GCC countries, high and increasing public-sector wages and employment are at odds with the objective of promoting participation of nationals in private-sector employment, as they contribute to high reservation wages (Box 1.3).

Monetary Policy for Stability and Growth

As with fiscal policy, the accommodative monetary policy stance of the past few years remains broadly appropriate. However, policymakers should stand ready to adjust fiscal and monetary policies should

inflationary pressures or credit bubbles emerge. This is particularly relevant in the GCC countries, where excess liquidity in the banking system is ample and where, therefore, a change in the willingness to lend could spark a rapid pickup in credit growth. So far, policy has been either neutral or focused on addressing insufficient credit growth. Qatar, for example, has reduced interest rates twice during the past six months to discourage speculative capital inflows and encourage banks to lend.

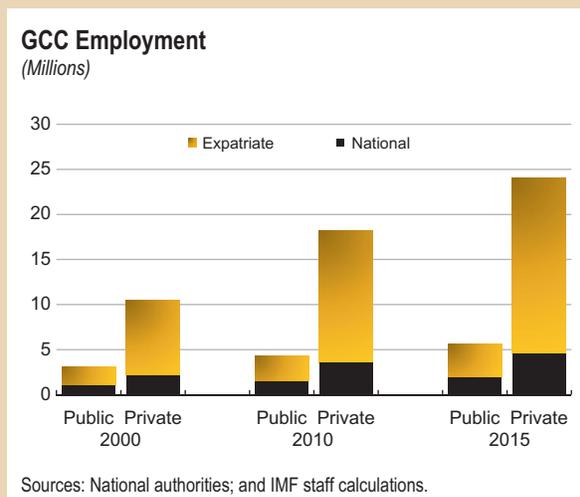
Monetary policy tightening should be undertaken with greater urgency in several non-GCC countries (Sudan, for example), but will require fiscal consolidation to rein in central bank financing. In these countries, greater exchange rate flexibility, together with effective monetary aggregate targeting, can assist in achieving price stability.

Over time, the macroprudential toolkit should be developed further as a means to conduct

Box 1.3

Labor Markets in the GCC

IMF staff estimates indicate that approximately 7 million new jobs were created in the GCC over the past decade, of which less than 2 million went to nationals. The sharp rise in expatriate employment has occurred largely in the private sector, but also in the public sector in Kuwait and Qatar. The high unemployment rate for nationals¹ has not resulted from insufficient job creation, but from skills mismatches, high reservation wages, and the attractiveness of public-sector employment. Based on historic trends, and in light of the rapidly growing workforce, the number of unemployed GCC nationals could increase by as many as 2 to 3 million over the next 5 years, compared with approximately 5 million employed nationals in 2010.



On the basis of staff calculations, GCC countries could be expected to increase employment by almost 6 million workers during 2010–15. However, less than one-third of the new jobs would go to GCC nationals, barring a policy shift (see figure).² On the supply side, more than 4½ million new nationals will be old enough to work.

An increase in employment opportunities for nationals will require an enhancement of the current employment strategy, while ensuring that it does not erode competitiveness. For several years, most GCC countries have had programs in place aimed at increasing employment of nationals, including quotas, training and placement services, subsidies, and other incentives. These initiatives will likely need to be supplemented or replaced by measures to address skills mismatches and high reservation wages of nationals. A challenge will be to promote the employment of nationals without imposing undue costs on doing business that would erode competitiveness and potentially reduce growth.

Prepared by Joshua Charap.

¹ Data on unemployment are not necessarily comparable across countries, as definitions differ.

² New labor market entrants during 2010–15 were calculated from population estimates and projections available at: http://esa.un.org/unpd/wpp/unpp/panel_indicators.htm.

countercyclical demand policy and to prevent excessive buildup of risks in the banking sector. All GCC countries have been successful with such macroprudential tools as caps on loan-deposit ratios, increasing loan provisioning and capital requirements in good times, setting minimum liquidity ratios, and selective floors on capital requirements. Further use of these types of instruments, along with the development of an early warning system—such as that which is in place in the United Arab Emirates—can serve to enhance financial sector stability.

Structural Reforms Should Continue

To support the overall effort to diversify the economy and provide employment to growing populations, attention should focus on three key areas: improving the business environment (Annex 2.2), reforming labor markets, and promoting good governance.

Regarding the business environment, although several GCC countries rank favorably on a number of indicators, the same is not true for all MENAP oil-exporting countries. Furthermore, even where high-quality regulations exist on paper—for example, a small number of days required to obtain an operating license for a new firm—their unequal application to large and small firms deters competition.

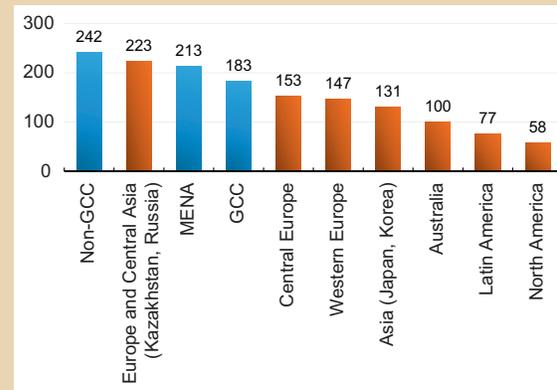
Given the expected expansion of the working-age population, growth in the non-oil sector alone will not solve the unemployment problem, particularly among GCC nationals. Policies to promote employment should focus primarily on providing prospective labor force entrants with the skills required by employers and with incentives to participate (Box 1.3).

Improvements in bank governance should be pursued as well. MENA banking systems have for many years relied on interconnectedness with large and often family-owned conglomerates. As a result, name lending is prevalent, and loan concentration has been appreciably higher than in most other regions (Figure 1.15). Access to financial services

Figure 1.15

High Loan Concentration in MENA

(Banks' top 20 credit exposures; percentage of total equity)



Sources: Standard & Poor's; and World Bank, *Financial Access and Stability* (2011).

among the population is low, with small and medium-sized enterprises finding it particularly difficult to obtain bank credit.¹⁰ A concerted effort to increase competition, improve transparency of ownership and disclosure of nonfinancial information, ensure sufficient representation of independent board members with a mix of relevant experience, and allow for a stronger role of supervision should help increase the quality and inclusiveness of financial intermediation.

Hand in hand with the development of bank intermediation, policy should aim at developing the corporate debt market to increase domestic options for financing productive activity. Placement of government debt at regular intervals and at a sufficiently wide range of maturities can play a key leading role, even in countries where there is no clear need for government financing.

¹⁰ See IMF, April 2011 *Regional Economic Outlook: Middle East and Central Asia*, Section 3.3, “The Impact of Financial Development on Economic Growth in the Middle East and North Africa.”

Annex 1.1. Medium-Term Outlook on the Production of Oil and Natural Gas

The global oil market is expected to remain tight over the medium term, with demand projected to grow faster than supply. In the gas market, supply is expected to cover demand growth comfortably, which explains the recent decoupling of oil and gas prices. The MENA region will remain a key player on the supply side of both oil and gas markets, although the rapid increase in domestic energy consumption may subtract from the region's export potential.

Oil

Oil markets received a great deal of attention during the first half of 2011. Oil prices, for the most part, have continued on an upward trend since the autumn of 2010 amid adverse supply shocks, volatility of demand, and heightened concerns about the health of advanced economies. Looking ahead, the projected strong growth of emerging Asia and China and the anticipated maturing of oil fields in major producing countries have renewed concerns that oil markets may be entering a period of increased scarcity.¹

2011 Supply Disruptions Turned Out to Be Relatively Minor

During the first half of 2011, oil supply was affected by temporary shutdowns of production in countries that are not members of the Organization of Petroleum Exporting Countries (OPEC) for maintenance and capacity expansions and by supply disruptions in Libya. Lack of supply, however, does not appear to have been as significant as these disruptions would suggest. In particular, inventory levels during the first half of 2011 still showed some overhang vis-à-vis historical levels, a situation that seems to have normalized only by end-June. At the same time, OPEC production reached levels similar to those observed at the beginning of the year, largely as the result of a significant production increase in Saudi Arabia, which in turn has helped stabilize international energy markets (Table 1).

Prepared by Ananthakrishnan Prasad and Pedro Rodriguez.

¹ See IMF, April 2011 *World Economic Outlook*.

Table 1

Crude Oil Production

(Million barrels per day)

	2007	2008	2009	2010	Proj. 2011
MENAP oil exporters	25.8	26.3	24.3	24.5	24.1
Libya	1.8	1.8	1.6	1.6	...
Kuwait	2.6	2.7	2.3	2.3	2.5
Saudi Arabia	8.8	9.2	8.4	8.4	9.3

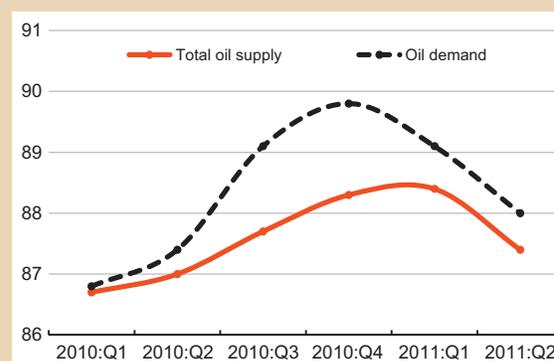
Sources: National authorities; and IMF staff calculations.

At the end of the first half of 2011, the oil market faced another unusual supply event—the release by the International Energy Agency (IEA) of about 60 million barrels from its strategic reserve. The IEA argued that this release—only the third in the agency's 37-year history—was in response to concerns that the Libyan supply disruption, coupled with the normal seasonal increase in refiner demand expected for the summer, could exacerbate the tightness in the oil market (Figure 1). The IEA,

Figure 1

Global Oil Demand and Supply

(Million barrels per day)



Source: U.S. Energy Information Administration.

Table 2

Global Oil Production Capacity*(Million barrels per day, unless otherwise indicated)*

	2010	Projections						Annual growth (Avg., percent)	
		2011	2012	2013	2014	2015	2016	2011–16	2006–10
Production capacity									
OPEC	41.1	40.2	40.8	42.6	43.9	45.0	45.3	1.6	2.3
Crude oil	35.7	34.3	34.4	35.9	36.9	37.7	37.9	1.0	2.1
Natural gas liquids	5.3	5.9	6.3	6.7	7.0	7.3	7.4	5.6	3.7
Non-OPEC	52.7	53.3	54.2	54.2	54.3	55.1	55.4	0.8	0.5
Total	93.8	93.5	95.0	96.8	98.2	100.1	100.7	1.2	1.3
Memorandum items:									
Oil demand	88.0	89.3	90.6	91.9	93.1	94.2	95.3	1.3	
Call on OPEC oil ¹	35.3	36.0	36.4	37.7	38.8	39.1	39.9	2.1	
Implied OPEC spare capacity to oil demand (%)	6.6	4.7	4.8	5.3	5.5	6.2	5.6		

Sources: International Energy Agency, *Medium-Term Oil and Gas Markets 2011*; and IMF staff estimates.¹Calculated as the difference between oil demand and non-OPEC production.

which initially made this supply available for 30 days, decided not to repeat the operation at the end of that period.

Spare Production Capacity to Decline as Global Demand Grows

Global production capacity is expected to grow by 6.8 million barrels per day (mbd) by 2016, an average annual growth of about 1.2 percent.² About 40 percent of the capacity increase (2.6 mbd) is expected to come from non-OPEC countries, led by expansions of production from North and South American countries (mainly Brazil, Canada, and the United States). Technological progress is playing an important role in non-OPEC capacity expansion: U.S. production, for example, is expected to see an average annual growth of 1 percent, driven by the expansion of light tight oil, which uses similar techniques to those used to extract unconventional gas (Table 2).³

² IEA, *Medium-Term Oil and Gas Markets 2011*.

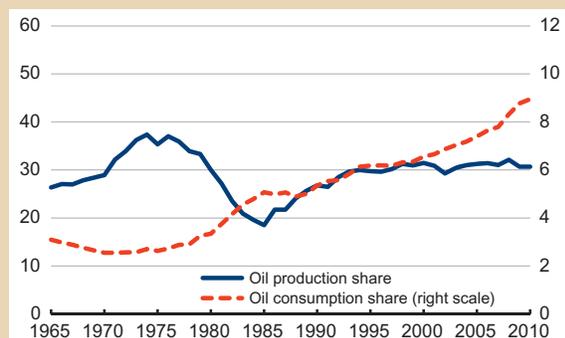
³ See IMF, April 2011 *World Economic Outlook*, Box 3.2, for a discussion of the implications of unconventional gas for the global gas market.

The remainder of the capacity expansion is expected to come from OPEC producers (4.2 mbd), with the largest share coming from Iraq as oil facilities continue to come back online. Notwithstanding this relatively high increase in production capacity, OPEC's spare capacity as a share of global oil demand is expected to decline somewhat over the medium term, as oil demand growth outpaces the growth in non-OPEC supply.

Middle East Oil Consumption to Bite into Export Supply

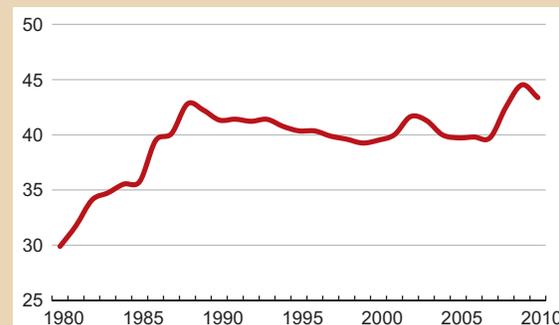
The Middle East is by far the largest oil-exporting region in the world—in 2010 it produced more than 30 percent of the world's oil, while its share in global oil consumption amounted to just 9 percent (Figure 2). Nonetheless, the Middle East's share in global oil consumption has been increasing rapidly over the past decade—to a large extent as a consequence of the region's economic growth, but also likely supported by low oil prices in many countries in the region. Particularly striking has been the region's oil consumption over the past two years: oil consumption growth in the Middle East easily outpaced that of other regions in 2009 and was basically at par with Asia's consumption growth in 2010 (Figure 3).

Figure 2
Middle East: Oil Production and Consumption
 (Percent of global oil production and consumption, respectively)



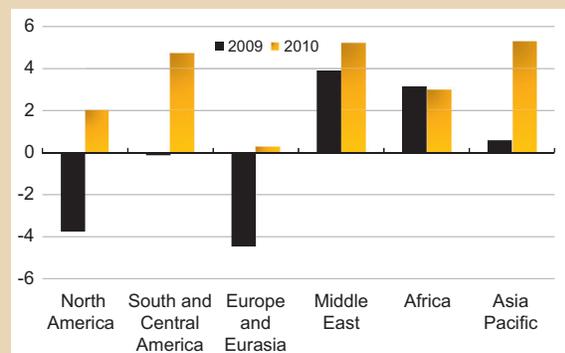
Source: British Petroleum, *Statistical Review of World Energy 2011*.

Figure 4
Global Proven Reserves to Oil Consumption¹
 (Number of years)



Source: British Petroleum, *Statistical Review of World Energy 2011*.
¹Excluding Canadian oil sands from oil reserves.

Figure 3
Oil Consumption Growth by Region
 (Percent)



Source: British Petroleum, *Statistical Review of World Energy 2011*.

Oil Will Remain a Major Primary Energy Source

While current projections suggest that supply conditions in the oil market are expected to remain tight in the medium term, there are indications that some relief may occur in the longer term. There are two key reasons. First, oil reserves remain significant, indicating that new oil discoveries and technology have continued to evolve at a rapid pace. Particularly telling is that despite the rapid increase in oil demand over the past decade, the ratio of proven reserves to oil consumption has actually increased (Figure 4). Second, the prospect of high oil prices is

inducing oil companies to invest in upstream activities—which should lead to increases in production capacity in the long term. More specifically, the IEA estimates that oil companies plan to increase their investment in upstream activities by 10–20 percent in 2011 relative to 2010, with 2010 already having seen about 10 percent growth.⁴

Natural Gas

In 2011, global supply met the increase in demand, with some localized shocks. Surplus gas production in 2009 and strong growth of 7.3 percent in 2010 were adequate to meet the incremental demand of about 220 billion cubic meters (bcm) in 2010.⁵ World natural gas consumption increased to an estimated 3,169 bcm in 2010, rebounding by 7.4 percent (after having dropped by 2.5 percent in 2009)—the highest increase since 1984. Power generation remains the main driver behind gas demand growth. Liquefied natural gas (LNG) production—mainly in Qatar—increased by 60 bcm, and U.S. shale gas production jumped by an estimated 50 bcm in 2010. A series of events in early 2011 collectively affected both supply and demand; additional supplies from Russia and

⁴ IEA, *Medium-Term Oil and Gas Markets 2011*.

⁵ British Petroleum, *Statistical Review of World Energy 2011*.

Table 3

Proven Reserves and Producers of Gas

	Proven Reserves			Top 10 Gas Producers					
	Trillion cubic meters	Share of total	Billion tons	2000	2008 (Billion cubic meters)	2009	2010	Change in 2010 (Percent)	
Russia	44.8	23.9	33.2	United States	543	571	583	611	4.8
Iran	29.6	15.8	21.9	Russia	529	602	528	589	11.6
Qatar	25.4	13.6	18.8	Canada	182	176	164	160	-2.5
Turkmenistan	8.0	4.3	5.9	Iran	60	116	131	139	5.6
Saudi Arabia	8.0	4.3	5.9	Qatar	24	77	89	117	30.7
United States	7.7	4.1	5.7	Norway	50	99	104	106	2.6
United Arab Emirates	6.0	3.2	4.4	China	27	80	85	97	13.5
Venezuela	5.5	2.9	4.1	Saudi Arabia	50	80	79	84	6.9
Nigeria	5.3	2.8	3.9	Indonesia	65	70	72	82	14.0
Algeria	4.5	2.4	3.3	Algeria	84	86	80	80	1.0
Total World	187.1	100.0	138.6	Total World	2,413	3,062	2,976	3,193	7.3

Source: British Petroleum, *Statistical Review of World Energy 2011*.

Algeria compensated for Libya's disruption of pipeline and LNG exports to Italy, and the closure of nuclear power plants in Japan and Germany translated into additional demand for gas.

Shale gas extraction has so far been confined to the United States, but there is growing interest in exploiting unconventional sources of gas across the globe. A number of countries have started exploring potentially large shale gas resources, including Australia, Austria, Canada, China, Germany, Hungary, India, Poland, Saudi Arabia, and the United Kingdom. Moreover, empirical research suggests that shale gas production may start to affect gas prices and may explain the recent decoupling of oil and natural gas prices in the United States.⁶

Global Reserves Are Ample

Proven gas reserves at end-2010 are estimated at 187.1 trillion cubic meters (tcm) globally (Table 3). The MENA region has 40 percent of the world's proven gas reserves, with scope for new discoveries. Iran, Qatar, and Russia hold more than half of global proven gas reserves. At current global

production rates, today's worldwide proven reserves (conventional and unconventional) could sustain current production for 58 years,⁷ whereas the combined resources—the recoverability of which is more uncertain—equal 250 years of current production.

Global supply will keep up with demand, while the Middle East continues to consume most of its production. Global gas supply is expected to comfortably cover world gas demand growth of 2.4 percent per year during 2010–16.⁸ The power sector will remain the leading driver of gas demand over the medium term, as displacement of coal-fired power by gas-fired power in the medium to long term is the most cost-effective way of reducing carbon dioxide emissions globally.⁹ China will be the largest consumer.¹⁰ Non-OECD markets will be a main driver behind this demand growth, but will also contribute 90 percent of additional

⁷ IEA, *World Energy Outlook*, 2009.

⁸ IEA, *Medium-Term Oil and Gas Markets*, 2011.

⁹ Massachusetts Institute of Technology (MIT), *The Future of Natural Gas—An Interdisciplinary MIT Study*, 2010. The power sector is sensitive to price variations, and as gas-fired plants are competing in the margin with coal-fired plants, they react very rapidly to price changes.

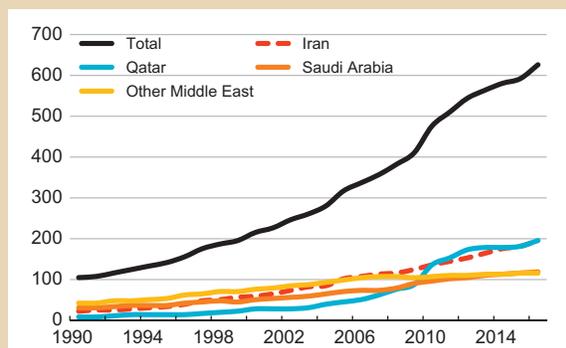
¹⁰ The stated objectives of China's 12th Five-Year Plan, if met, would result in a dramatic increase in gas demand to 260 bcm from 107 bcm today.

⁶ See Reinout De Bock and José Gijón, 2011, *Will Natural Gas Prices Decouple from Oil Prices Across the Pond?* IMF Working Paper 11/143.

Figure 5

Middle East Natural Gas Production

(Billion cubic meters)



Source: U.S. Energy Information Administration.

supplies. The Middle East will represent 20 percent of the additional consumption of gas, which is projected to increase from an estimated 370 bcm in 2010 to 470 bcm by 2016.

On the supply side, the Middle East region will be the second-largest contributor, adding 110–150 bcm of capacity, expected to come online between 2011 and 2016 (Figure 5).¹¹ The strongest growth will come from Qatar (mainly in 2011), Iran, and Saudi Arabia, but in the latter two, increased production will be largely used for domestic consumption. Whereas the region as a whole will remain a net exporter of gas over the medium term, some countries such as Kuwait, Oman, and the United Arab Emirates will continue to import gas.

¹¹ The IEA projects 111 bcm, whereas the U.S. Energy Information Administration projects 150 bcm.

Table 4

Major Gas Consumers in the Middle East

(Billion cubic meters, 2010)

	Consumption	Net Exporter (+)/ Importer (-)		Production
Iran	136.9	1.6	138.5	
Kuwait	14.4	-2.8	11.6	
Qatar	20.4	96.3	116.7	
Saudi Arabia	83.9	0.0	83.9	
United Arab Emirates	60.5	-9.5	51.0	
Other Middle East	49.4	9.6	59.0	
Total in Middle East	365.5	95.2	460.7	

Source: British Petroleum, *Statistical Review of World Energy 2011*.

Although countries in the Middle East (mainly Qatar) and North Africa (such as Algeria, Egypt, Libya, and Yemen) were net exporters of gas in 2010, most of the gas produced in the Middle East is consumed there (Table 4). Saudi Arabia is neither an exporter nor an importer of natural gas. Iran, the second-largest holder of proven gas reserves in the world, consumes nearly all its current annual production domestically. Other countries in the Middle East have been developing their import capacity with pipelines from Turkmenistan to Iran, LNG import terminals in Dubai and Kuwait, and interregional pipelines from Qatar to Oman and the Emirates.¹²

¹² U.S. Energy Information Administration, *International Energy Outlook—Natural Gas 2010*.

1. MENAP OIL EXPORTERS: BENEFITING FROM HIGH OIL PRICES AMID GROWING RISKS

Selected Economic Indicators: MENAP Oil Exporters¹

	Average	2006	2007	2008	2009	2010	Projections	
	2000–05						2011	2012
Real GDP Growth	5.6	5.9	6.8	4.0	1.8	4.4	4.9	3.9
<i>(Annual change; percent)</i>								
Algeria	4.5	2.0	3.0	2.4	2.4	3.3	2.9	3.3
Bahrain	6.0	6.7	8.4	6.3	3.1	4.1	1.5	3.6
Iran, I.R. of	5.5	5.8	10.8	0.6	3.5	3.2	2.5	3.4
Iraq	...	6.2	1.5	9.5	4.2	0.8	9.6	12.6
Kuwait	7.1	5.3	4.5	5.0	-5.2	3.4	5.7	4.5
Libya	4.3	6.7	7.5	2.3	-2.3	4.2	...	...
Oman	3.3	5.5	6.7	12.9	1.1	4.1	4.4	3.6
Qatar	8.7	26.2	18.0	17.7	12.0	16.6	18.7	6.0
Saudi Arabia	4.0	3.2	2.0	4.2	0.1	4.1	6.5	3.6
Sudan	6.3	9.4	10.2	3.7	4.6	6.5	-0.2	-0.4
United Arab Emirates	8.1	8.8	6.5	5.3	-3.2	3.2	3.3	3.8
Yemen	4.5	3.2	3.3	3.6	3.9	8.0	-2.5	-0.5
Consumer Price Inflation	5.4	8.8	11.2	14.9	5.9	6.7	11.1	7.7
<i>(Year average; percent)</i>								
Algeria	2.3	2.3	3.6	4.9	5.7	3.9	3.9	4.3
Bahrain	0.7	2.0	3.3	3.5	2.8	2.0	1.0	1.8
Iran, I.R. of	13.5	11.9	18.4	25.4	10.8	12.4	22.5	12.5
Iraq	5.6	53.2	30.8	2.7	-2.2	2.4	5.0	5.0
Kuwait	1.7	3.1	5.5	10.6	4.0	4.1	6.2	3.4
Libya	-3.3	1.4	6.2	10.4	2.8	2.5	...	...
Oman	0.1	3.4	5.9	12.6	3.5	3.3	3.8	3.3
Qatar	3.5	11.8	13.8	15.0	-4.9	-2.4	2.3	4.1
Saudi Arabia	-0.1	2.3	4.1	9.9	5.1	5.4	5.4	5.3
Sudan	7.6	7.2	8.0	14.3	11.3	13.0	20.0	17.5
United Arab Emirates	3.6	9.3	11.1	12.3	1.6	0.9	2.5	2.5
Yemen	11.6	10.8	7.9	19.0	3.7	11.2	19.0	18.0
General Government Fiscal Balance	6.0	13.9	11.9	13.0	-1.6	2.9	4.6	3.6
<i>(Percent of GDP)</i>								
Algeria	6.6	13.5	4.4	7.7	-6.8	-1.1	-2.6	-0.9
Bahrain ²	1.4	2.7	1.9	4.9	-6.6	-7.8	-7.7	-7.1
Iran, I.R. of ²	2.9	2.3	7.4	0.7	1.0	1.7	2.4	1.0
Iraq	...	15.5	12.4	-1.3	-22.1	-9.1	-8.7	-7.9
Kuwait ²	27.2	35.3	39.0	19.6	26.7	22.6	23.6	23.6
Libya	12.0	33.5	29.7	25.9	5.4	8.7	...	...
Oman ²	8.4	13.8	11.1	13.8	-1.2	5.0	10.9	8.7
Qatar	8.7	8.5	10.9	10.0	15.3	2.9	7.7	3.8
Saudi Arabia	7.7	24.6	15.8	34.4	-4.6	6.7	9.4	8.0
Sudan	-0.6	-4.3	-5.5	-1.5	-4.8	-3.2	-2.8	-3.0
United Arab Emirates ³	4.5	18.1	15.4	16.5	-12.6	-1.1	5.8	4.8
Yemen	0.0	1.2	-7.2	-4.5	-10.2	-4.0	-7.1	-6.1
Current Account Balance	11.2	21.9	17.6	18.7	4.1	10.6	15.0	12.4
<i>(Percent of GDP)</i>								
Algeria	14.0	24.7	22.8	20.2	0.3	7.9	13.7	10.9
Bahrain	5.0	13.8	15.7	10.2	2.9	4.9	12.6	13.7
Iran, I.R. of	5.1	9.3	10.5	6.5	3.0	6.0	7.8	7.1
Iraq	...	19.0	12.5	19.2	-13.8	-3.2	-0.9	-1.2
Kuwait	26.2	44.6	36.8	40.5	23.6	27.8	33.5	30.4
Libya	18.8	51.0	43.2	38.9	15.9	14.4	...	...
Oman	9.4	15.4	5.9	8.3	-1.3	8.8	14.5	12.9
Qatar	25.0	25.1	25.4	28.7	10.2	25.3	32.6	30.1
Saudi Arabia	13.6	27.8	24.3	27.8	5.6	14.9	20.6	14.2
Sudan	-9.5	-15.5	-12.7	-9.4	-13.9	-6.7	-7.3	-7.6
United Arab Emirates	7.7	15.3	6.0	7.4	3.0	7.0	10.3	9.2
Yemen	5.3	1.1	-7.0	-4.6	-10.2	-4.5	-5.3	-4.7

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

¹2011 and 2012 data exclude Libya.²Central government.³Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.