

World Economic and Financial Surveys

Regional Economic Outlook

Middle East and Central Asia



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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\$95.50 a barrel in 2008; and that the six-month London interbank offered rate (LIBOR) on U.S. dollar deposits will average 3.1 percent in 2008. These are, of course, working hypotheses rather than forecasts, and the uncertainties surrounding them add to the margin of error that would in any event be involved in the projections. Some of the 2007 data in the figures and tables are estimates. These estimates for 2007 and projections for 2008 are based on statistical information available through end-March 2008.

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, 2006–07 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, 2006/07) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY2007).
- “Billion” means a thousand million; “trillion” means a thousand billion.
- “Basis points” refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to $\frac{1}{4}$ 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.

Further Information

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

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Photo on opposite page:
Decorated Entrance—Morocco
By Hervé Hughes/Hemis/Corbis

Recent Macroeconomic Developments



Highlights

Economic activity in the Middle East and Central Asia (MCD) region continued to be strong in 2007, underpinned by robust global growth, high commodity prices, and improved policy frameworks. Real GDP grew at about 6½ percent, matching the region's performance in 2006, and marking its best five-year performance since the 1980s. In oil-producing countries, relatively flat oil production limited the direct contribution of the oil sector to growth, but the record-high oil prices continued to support vigorous non-oil economic activity by financing large public investment programs and generous wage settlements and by boosting business and consumer confidence. Despite higher fuel import costs, emerging market and low-income countries in the region have benefited indirectly from the surge in oil prices through increasing foreign direct investment (FDI), particularly from the Gulf Cooperation Council (GCC)¹ countries and worker remittances.

Growth was, however, accompanied by a pickup in inflation, reflecting rising international food and fuel prices, booming domestic demand, and increasingly binding capacity constraints, particularly in the housing sector. Strong domestic demand was driven by expansionary macroeconomic policies and a sharp increase in private investment, buoyed by optimism about the region's medium-term growth prospects. Notwithstanding the fiscal and monetary expansion and strong import growth, the further rise in oil revenues generated fiscal and current account surpluses for the region as a whole of 5 and 15 percent of GDP, respectively, strengthening public sector balance sheets and reducing external vulnerability. International reserves approached the US\$1 trillion mark, while external debt fell below 30 percent of GDP. Most equity markets in the region rebounded following the correction in 2006.

All countries in the region have been largely unscathed by the recent financial turmoil in developed countries, except Kazakhstan, where the banking sector relied heavily on foreign borrowing. As in most other emerging markets and developing countries, this resilience owes much to the region's strengthened macroeconomic position and progress with structural reforms.

The short-term outlook for the MCD region remains favorable, given the expectation that commodity prices will remain high, notwithstanding the downward revision in global growth. The surge in investment and strong productivity gains from broad-based structural reforms are expected to sustain growth at around 6 percent. However, against the background of persistently high fuel and food prices, strong domestic demand, and supply bottlenecks, inflationary pressures are unlikely to abate. With high oil prices boosting oil revenues, fiscal and current account surpluses in oil-producing countries are projected to remain large despite stronger imports and further fiscal expansion. In most non-oil-producing countries, the policy stance will likely aim to rein in fiscal and external deficits, contributing to further accumulation of international reserves and helping to reduce vulnerabilities.

Risks to the outlook are broadly neutral, with upside risks from domestic demand likely to be balanced by downside risks from the external sector. High oil prices and further cuts in U.S. interest rates could lead to a stronger-than-expected increase in domestic demand in the GCC countries.

¹ **GCC** countries comprise Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

Furthermore, the growing surplus in oil exporters, combined with concerns about asset quality in advanced economies, may well lead to increased inflows to the other countries in the region, fueling stronger credit and domestic demand. However, a protracted slowdown in advanced economies would hurt growth in most MCD countries, depressing exports and commodity prices. Tighter credit in advanced economies and lower risk appetite, as evidenced by widening sovereign spreads, could also curtail the capital inflows that have supported growth in many countries in the region.

The key macroeconomic policy challenge in the short run for most countries in the region is to contain rising inflationary pressures, and for countries with large external debts and current account deficits to protect their external stability in the context of high oil prices and slowing world growth. The appropriate policy mix will depend on each country's particular circumstances but would most likely call for fiscal and monetary tightening and greater exchange rate flexibility when feasible. In oil-exporting countries with currencies pegged to the U.S. dollar, demand management policies will face challenges in controlling inflation, given the continuing bias toward monetary easing in the United States. The burden of the adjustment may well have to fall on fiscal policy, particularly in the GCC countries where a change in the exchange rate regime would be disruptive in the run-up to the planned monetary union. But the room for maneuver of fiscal policy is also limited in view of the need for higher investment to alleviate supply bottlenecks and political pressure for higher spending on wages and social programs. Therefore, tolerating somewhat higher inflation for a while may be necessary.

Beyond this immediate challenge, policies need to remain focused on strengthening policy frameworks, promoting sound financial deepening, and supporting the growth potential of the private sector.

In particular, countries need to continue strengthening their fiscal policy frameworks tailored to address specific issues in their fiscal outlook, most notably the efficient and sustainable use of oil revenues in oil-exporting countries, and high public debt in some low-income and emerging market economies. Phasing out fuel and food subsidies while establishing a more targeted safety net would help some countries in the region preserve long-term fiscal sustainability, enhance efficiency of spending, and improve equity. For countries where greater exchange rate flexibility is desirable over the medium term, it is important to continue to lay the foundation of an independent monetary policy. Despite the difficult challenges ahead, GCC countries should be encouraged to keep the agenda of the proposed monetary union on track, including reaching consensus on the appropriate exchange rate regime.

Continued development of banking systems will be critical for achieving high growth and for the region's successful integration into the world economy. In particular, dealing with the large stock of nonperforming loans and restructuring state banks in some countries will be crucial for enhancing the efficiency of the banking sector and lowering the cost of borrowing. Strong supervisory vigilance is also important, particularly in countries experiencing rapid credit growth.

The private sector is essential for the expansion and diversification of the production and export base of MCD economies and for the creation of jobs for the rapidly growing labor force—a pressing problem for many countries in the region. Among the key policies in this regard are those to improve the investment climate and lower the cost of doing business (including by reducing barriers to trade and removing excessive government controls and regulations), to enhance the transparency of the legal and administrative systems, and to overhaul national education systems to meet the demands of an increasingly competitive world economy. ■

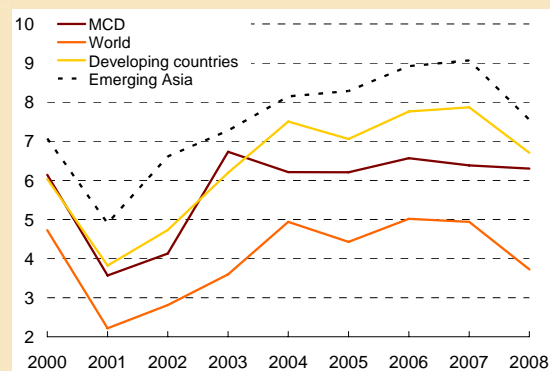
The May 2008 *Regional Economic Outlook: Middle East and Central Asia* (REO), covering countries in the Middle East and Central Asia Department (MCD) of the International Monetary Fund (IMF), provides a broad overview of recent economic developments in 2007 and prospects and policy issues for 2008. To facilitate the analysis, the 30 MCD countries covered in this report are divided into three groups: oil exporters, low-income countries, and emerging market countries.² Countries are grouped based on the share of oil in total exports, per capita income, and access to international capital markets. The following geographical groupings are also used: the Caucasus and Central Asia (CCA), Middle East and North Africa (MENA), Gulf Cooperation Council (GCC), and Maghreb.

Recent Economic Developments

The MCD region grew at a rapid pace in 2007, benefiting from the boom in oil and other commodity prices, the strong global economy, and improved policy frameworks. Regional growth exceeded 6 percent for the fifth consecutive year, a marked improvement from the low and volatile growth in the previous five years. Although significant, this growth acceleration was still below the average performance in other developing countries and well behind that of dynamic emerging market countries (Figure 1). The turmoil in the international financial markets since mid-summer had little impact on countries in the region, except for Kazakhstan, which experienced difficulties owing to banks' heavy reliance on foreign borrowing.

Figure 1. Global Real GDP Growth

(Annual change; in percent)



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

² **Oil exporters** comprise Algeria (DZA), Azerbaijan (AZE), Bahrain (BHR), Iran (IRN), Iraq (IRQ), Kazakhstan (KAZ), Kuwait (KWT), Libya (LBY), Oman (OMN), Qatar (QAT), Saudi Arabia (SAU), Syria (SYR), Turkmenistan (TKM), and the United Arab Emirates (UAE). **Low-income countries** comprise Afghanistan (AFG), Armenia (ARM), Djibouti (DJI), Georgia (GEO), the Kyrgyz Republic (KGZ), Mauritania (MRT), Sudan (SDN), Tajikistan (TJK), Uzbekistan (UZB), and Yemen (YMN). **Emerging market countries** include Egypt (EGY), Jordan (JOR), Lebanon (LBN), Morocco (MAR), Pakistan (PAK), and Tunisia (TUN). The country acronyms used in some figures are included in parentheses.

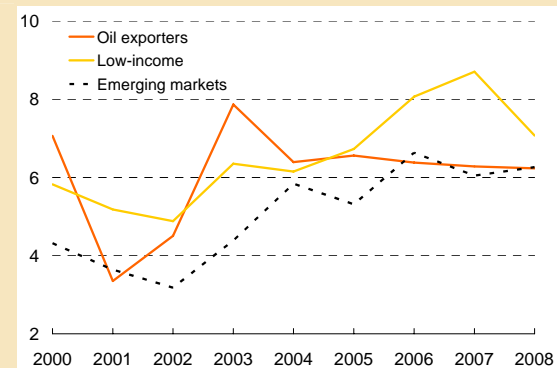
Among MCD countries, **growth** remained at about the same level as in 2006 in oil-exporting countries, strengthened in low-income countries, and was mixed in emerging market economies (Figure 2):

- In *oil-exporting countries*, with oil production increasing modestly to 28.4 million barrels a day (mbd) in 2007 from 27.9 mbd in 2006, the direct contribution of the oil sector to growth was very small, with value added growing at a mere 2¼ percent. The indirect contribution to growth of the boom in oil prices was, however, substantial; it helped to sustain a fast-paced expansion of non-oil economic activity by financing large public investment programs and generous wage settlements and by boosting business confidence. All in all, non-oil GDP grew by 7¼ percent in 2007, contributing to overall growth of 6¼ percent (Figure 3).
- *Low-income countries* recorded 8¾ percent growth. Double-digit growth was registered in Armenia, supported by strong domestic demand; Georgia, where the ambitious reform program initiated in 2004 led to a remarkable economic rebound (Box 1); and Sudan, driven by a large increase in oil production, although non-oil GDP growth has moderated somewhat. In Afghanistan, growth doubled to 12½ percent, owing to a strong rebound in agricultural production. In Mauritania, oil production, which had come on stream in 2006 and boosted growth to double-digit levels, plummeted in 2007 as a result of technical difficulties in the oil sector and brought overall growth close to zero. Nonetheless, growth of the non-oil sector, which is the main driver of employment and household disposable income, accelerated to about 6 percent.
- Average growth in *emerging market countries* moderated to 6 percent from 6½ percent in 2006 (Figure 4), mainly reflecting the sharp deceleration of growth in Morocco, resulting from a weather-related 20 percent contraction in its agricultural output.

Lebanon saw a recovery from the 2006 conflict-related trough, despite the prolonged political stalemate over the presidential election. The other economies enjoyed a year of robust and well-balanced growth, supported in part by a strong pickup in foreign direct investment (FDI) from the GCC countries (Box 2). In Egypt, growth accelerated, broadening to labor-intensive sectors and contributing to a marked decline in unemployment. In the other countries,

Figure 2. Real GDP Growth in the MCD Region

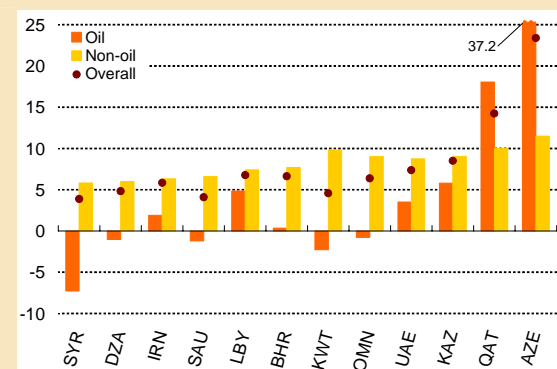
(Annual change; in percent)



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

Figure 3. Oil and Non-Oil GDP Growth in Oil Exporters, 2007

(Annual change; in percent)



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

Box 1. Georgia: Successful Reforms Since the Rose Revolution

Georgia has shown impressive growth rates due to a rigorous reform of the business environment. The growth momentum was resilient enough to weather the loss of the Russian export market, and also appears to remain strong despite political uncertainties since the opposition protests in November 2007.

When the Shevardnadze government was forced out of office by opposition protests over irregularities in the 2003 election (the “Rose Revolution”), the economy was still suffering from the fall in GDP during the 1990s—almost 75 percent, by most estimates the worst for any transition country. Mismanagement had undermined Georgia’s institutions, including tax and customs administration.

The new government under President Saakashvili, one of the leaders of the protests, embarked on an ambitious reform agenda, which resulted in a remarkable economic turnaround (growth went up from an average of 5.8 percent in 2000–03 to 9.3 percent in 2004–07), which exceeded the average non-oil-producing CCA growth rate (Figure B1.1). This growth was also broad based.

Economic reforms, some of which were supported by IMF programs, focused on the following areas:

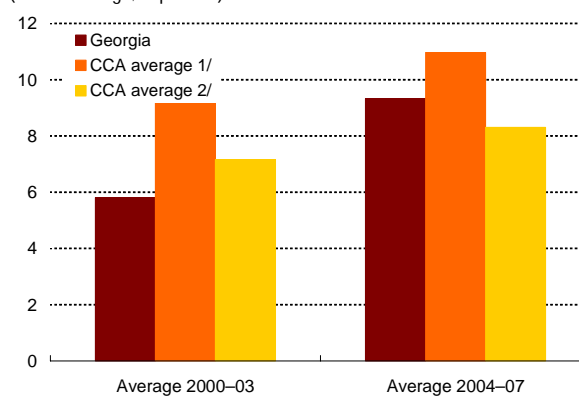
- The government’s stake in the economy was reduced through an ambitious privatization program. Restrictions on foreign investment, in particular in the banking sector, were removed.
- The tax system was simplified by reducing the number of tax brackets from 21 to 7 and curtailing exemptions and special regimes.
- The customs regime was radically liberalized, with 90 percent of all goods now free of customs duties.
- Burdensome red tape was abolished.
- Tax and customs administration improved. The tax department was reorganized, a financial police force was established, and corrupt high-ranking officials were prosecuted.

These reforms radically improved conditions for doing business. In the World Bank’s “Doing Business” survey, Georgia has moved up by 95 positions since 2004, reaching position 18 in the 2008 survey, above Belgium and Germany. Popular reforms, such as the reform of the corrupt traffic police, gained the government broad-based support and strengthened political stability.

In the favorable global economic climate, these reforms attracted capital inflows, mainly in the form of FDI. The largest foreign-financed investment project was the construction of the strategically important oil pipeline that connects the Caspian Sea to the Mediterranean. But there was also a broad range of smaller projects, from real estate to the banking sector, where foreign investment supported a credit boom.

Figure B1.1. Real GDP Growth

(Annual change; in percent)



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

¹Simple average, excludes Georgia.

²Simple average, excludes Georgia and oil-exporting countries (i.e., Azerbaijan, Kazakhstan, and Turkmenistan).

Box 1 (concluded)

While fiscal developments were generally positive, the large capital inflows created a challenging environment for monetary policy. Because of tax policy and administration reforms, tax revenues were buoyant, allowing room for a substantial increase in expenditures, particularly to upgrade infrastructure (Figure B1.2). But, with government spending rising fast, monetary policy was left with the difficult task of keeping inflation under control during a period of increasing capital inflows. In fact, reflecting concerns about competitiveness, the central bank intervened heavily in the foreign exchange market to limit exchange rate appreciation and sterilized only a small fraction of the injected liquidity, contributing to strong inflationary pressures (Figure B1.3).

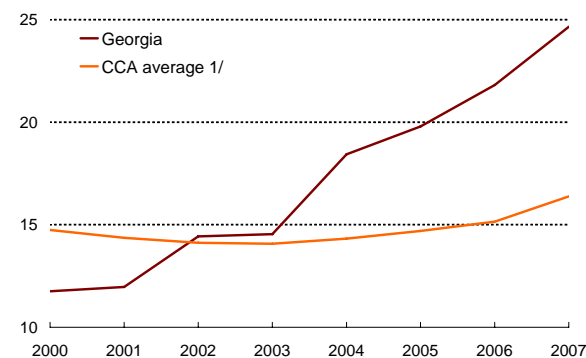
Georgia's newly reformed economy faced a major challenge when relations with Russia deteriorated in the fall of 2006, resulting in the closure of the border and, consequently, a sharp decline in exports. In addition, Russia drastically increased the price of natural gas imports, a major heating source in Georgia. The deterioration of the current account in late 2006 due to weaker exports to Russia was limited owing to the success of Georgian exporters in finding new markets. Reducing the dependence on Russian gas by diversifying imports, in particular from Azerbaijan, remains the government's priority.

Another challenge for the government came when opposition rallies clashed with the police in November 2007, creating an environment of political uncertainty. In an effort to restore confidence, President Saakashvili resigned and called an early presidential election. He was reelected in January 2008 in an election that was considered fair by international observers. While capital inflows paused after the November events, they recovered quickly and are expected to reach a record high in 2008.

Although impressive progress has been achieved in advancing economic reforms and improving the business climate, important challenges remain. The government has already announced a stronger emphasis on social issues to address still-widespread unemployment and poverty. Oversight of the banking system needs to be strengthened, and the central bank is preparing a framework for moving toward its medium-term goal of inflation targeting. For the near term, the government has prepared a macroeconomic package that aims to bring down inflation while preserving strong growth. ■

Figure B1.2. Tax-to-GDP Ratio

(In percent)

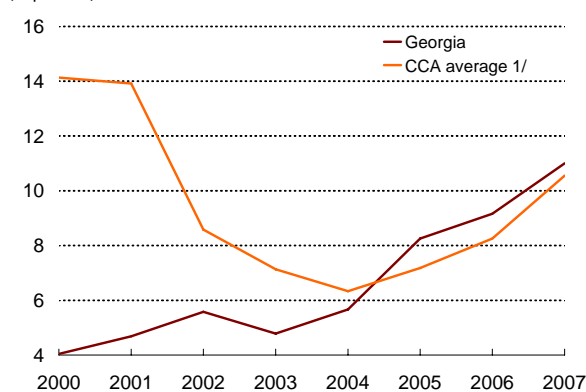


Sources: Data provided by country authorities; and IMF staff calculations.

1Simple average, excludes Georgia.

Figure B1.3. Inflation

(In percent)



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

1Simple average, excludes Georgia.

Box 2. GCC Capital Flows to MENA Emerging Market Countries

High oil prices have also benefited non-oil-exporting countries in the MENA region because oil exporters, particularly the GCC countries, are directing an increasing share of their foreign investments to the region. The majority of the flows are FDI, often linked to privatizations, but large infrastructure and new equity investments are also on the rise.

The accumulation of financial wealth and the search for higher yields have led GCC investors to diversify their investment strategy, geographically and across asset classes. As a result, an increased share of GCC funds is flowing to other emerging market economies. While hard data are scarce, there are indications that this trend has benefited many countries in the MENA region. According to a recent estimate by the Institute for International Finance, GCC investment into the broader MENA region during 2002–06 could account for about US\$60 billion, or 11 percent of estimated total GCC capital outflows during the period, and about one-fifth of the amount GCC countries invested in the United States.

FDI constitutes the bulk of GCC investment in Algeria, Egypt, Jordan, Morocco, and Tunisia. While the FDI inflows from GCC countries have significantly increased during the past few years, their level remains relatively modest so far (Table B2.1).

Investment flows have tended to be rather irregular, reflecting the preponderance of privatization operations, principally in the telecommunications (Egypt and Tunisia) and financial sectors (Tunisia). Recently announced large investment projects, mostly in the real estate and tourism sectors, could dramatically alter this assessment. In Morocco, about US\$6 billion in GCC-sourced investment was approved between January and April 2007, more than double the amount during the same period in 2006. In Tunisia, GCC-based companies recently committed about US\$29 billion over a 10- to 20-year horizon in five separate real estate development projects. There are indications that new equity investments are also on the rise in Egypt and Jordan.

In addition to FDI, the broader MENA region has also benefited from foreigners purchasing equity in private companies listed on stock exchanges. Although portfolio flows are increasing in several countries, they remain relatively modest and their sources are not easily amenable to geographical classification. As a result, the role played by increased capital flows from the GCC in the performance of the region's stock markets—particularly the Amman, Cairo, and Casablanca stock exchanges—in the last couple of years is difficult to ascertain. Foreign investors account for about one-third of market capitalization in Egypt and Morocco, and close to half the shares on the Amman stock exchange. Arab investors are estimated to account for one-half of total foreign holdings in Egypt and three-fourths in Jordan.

A sustained increase of capital inflows to the region's emerging markets could bring substantial macroeconomic and financial benefits, but also raise significant challenges for the design and conduct of economic policy. Recent experience in emerging market countries with large capital inflows underscores the need for appropriate coordination of monetary and fiscal policies, financial market deepening, and vigilant supervision as key instruments for mitigating these risks. ■

Table B2.1. FDI in Egypt, Morocco, and Tunisia
(In billions of U.S. dollars)

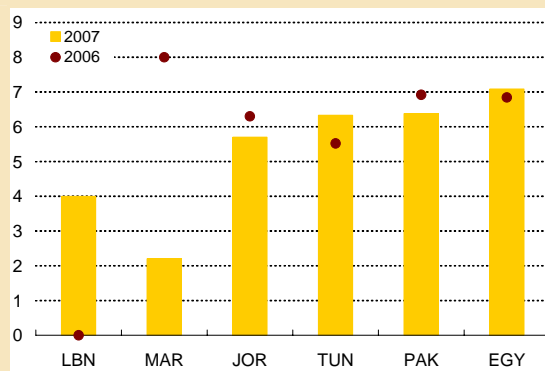
	2005	2006	2007
Egypt			
FDI Inflows	3.9	6.1	11.1
As a percent of GDP	4.3	5.7	8.6
Share from GCC-6	4.6	3.4	25.2
Morocco¹			
FDI Inflows	2.9	2.9	2.8
As a percent of GDP	5.0	4.4	3.8
Share from GCC-6	5.0	8.3	14.8
Tunisia			
FDI Inflows	0.8	3.3	1.6
As a percent of GDP	2.7	10.7	4.6
Share from GCC-6	9.7	69.4	3.8

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

¹2007 figures depict end-September position.

Figure 4. Growth in Emerging Markets

(Annual change: in percent)



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

higher growth over the past few years failed to make a significant dent in unemployment, which remains one of the main challenges facing policymakers in the MCD region.

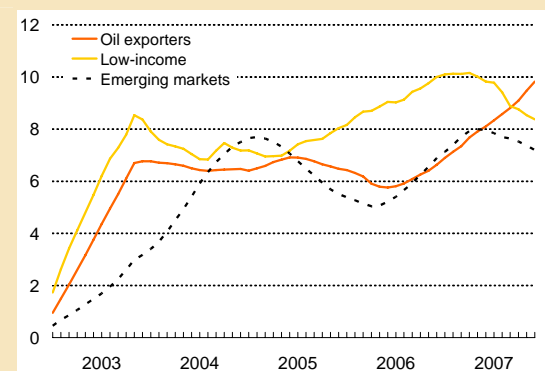
By geographical region, growth remained the highest in the CCA³ (12 percent), boosted by strong exports and remittances, increased FDI inflows, and record-high oil and commodity prices, as well as by expansionary fiscal and monetary policies. In Azerbaijan, growth exceeded 20 percent for the third consecutive year, driven by a large increase in oil production, which now accounts for 60 percent of GDP. In the GCC countries, high oil prices and a liberal economic environment helped boost public and private investments alike, creating a significant growth momentum (non-oil GDP grew by 7¾ percent, with Kuwait, Oman, Qatar, and the United Arab Emirates (U.A.E.) growing at

nearly 10 percent). The severe drought in Morocco and the disruption of oil production in Mauritania weighed down average growth in Maghreb⁴ countries. A decline in violence, good macroeconomic management, and progress on structural reforms have put the Iraqi economy on a path toward macroeconomic stability and higher growth (Box 3).

Inflation, which has generally increased across all countries in the world, has also been on the rise in most MCD countries, particularly in oil-producing countries (Figures 5a and 5b). This reflects the increase in oil and food prices;⁵ the depreciation of the U.S. dollar, to which many MCD currencies are pegged; buoyant domestic demand; and supply bottlenecks, particularly in the housing sector.

Figure 5a. Consumer Price Inflation: Country Aggregates

(Year average: in percent)



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

³The **CCA** comprises Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.

⁴The **Maghreb** countries comprise Algeria, Libya, Mauritania, Morocco, and Tunisia.

⁵The price of wheat, which is the staple food in most countries in the region, increased by 33 percent in 2007 on top of a 25 percent increase in 2006.

Box 3. Iraq: Encouraging Economic Performance in 2007

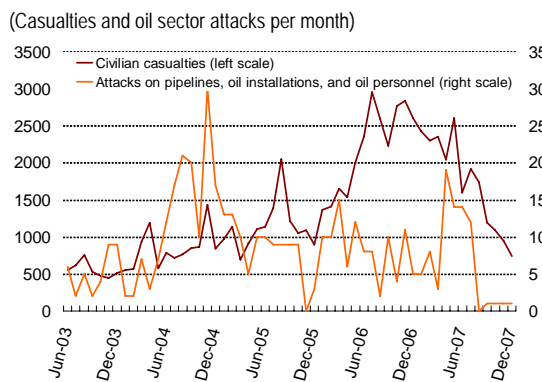
The Iraqi economy showed encouraging signs of improvement in 2007. Much remains to be done, however, to consolidate macroeconomic stability and increase economic growth. The economic outlook for 2008 and beyond depends critically on further security improvements and higher investment.

The past five years have been extremely difficult for the Iraqi economy, but during the course of 2007 some encouraging signs of improvement began to emerge. The level of violence came down sharply (Figure B3.1), and this was accompanied by a number of successes on the economic front.

Particularly impressive was the decline in inflation achieved during 2007. Inflation accelerated during 2006, partly reflecting fuel shortages, and ended the year at 65 percent—double the inflation rate at the end-2005 (Figure B3.2). The authorities responded with a policy package including exchange rate appreciation, monetary tightening, and fiscal discipline. These policies, together with measures to reduce fuel shortages, brought inflation down to less than 5 percent by December 2007. Core inflation—which excludes fuel and transportation prices—fell to about 12 percent in 2007, from 32 percent in 2006.

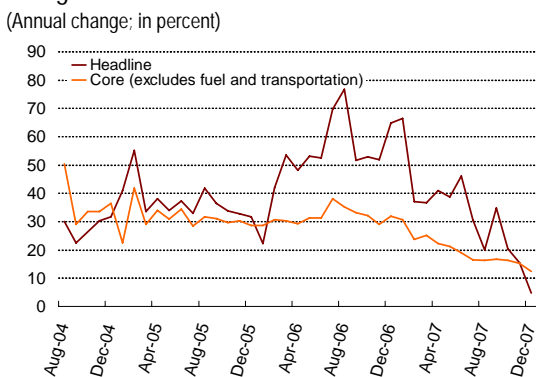
The Iraqi authorities also made considerable progress in addressing distortionary and wasteful fuel price subsidies. Fuel price adjustments—which had started in 2005 from a very low price (about 1 U.S. cent per liter of gasoline)—continued in 2007, bringing domestic fuel prices in line with (and sometimes above) regional levels (Figure B3.3). The benefits of this bold move were substantial. Direct fuel

Figure B3.1. Violence Indicators, June 2003–December 2007



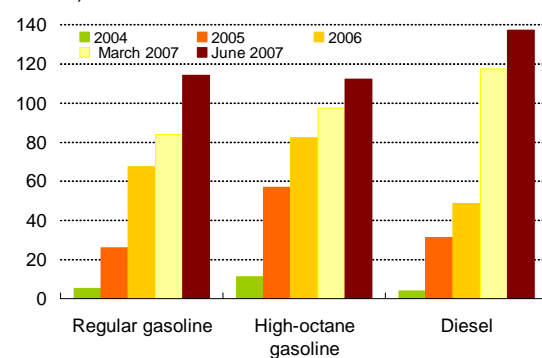
Sources: Iraq Pipeline Watch; and Iraq Body Count.

Figure B3.2. Consumer Price Inflation, August 2004–December 2007



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

Figure B3.3. Official Fuel Prices, 2004–07 (In percent of average fuel prices in other MCD oil-exporting countries)¹



Sources: Data provided by country authorities; and IMF staff calculations. ¹Assumes no price increase in benchmark countries in 2007; June 2007 is a projection.

Box 3 (concluded)

subsidies, which amounted to no less than 13 percent of GDP in 2004, were eliminated, except for a small subsidy on kerosene, and incentives to smuggle fuel out of the country were significantly reduced. This allowed the authorities to expand the resource envelope available to address Iraq's reconstruction and social needs.

Crude oil production and exports, which had stagnated during 2005 and 2006, rose during the second half of 2007. With better security, the flow of oil, including through the northern pipeline to Turkey, has increased in recent months. Production is reported to have reached 2.3 mbd and exports 1.8 mbd in the final quarter of 2007, compared to an average of 2.0 and 1.4, respectively, during 2006. Higher world oil prices meanwhile helped bring about a further accumulation of resources in the Development Fund for Iraq (DFI), through which all oil export revenues are channeled, to US\$12.6 billion at end-2007, compared with US\$8.6 billion at end-2006. Reconstruction spending, which is financed from the DFI, has picked up compared with previous years, especially in governorates, supporting economic activity across the country.

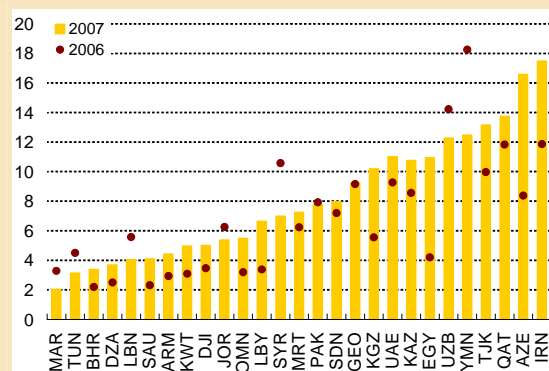
Iraq has also continued to make progress toward reducing its external debt burden. Following a three-stage agreement with the Paris Club in 2004 on the write-off of 80 percent of its debt in net present value terms, bilateral agreements have been signed with all Paris Club creditors. Some progress has also been made with non-Paris Club creditors; Iraq has signed agreements with 11 creditor countries. The sustainability of Iraq's external debt, however, still requires the third and final tranche of the Paris Club debt relief expected at end-2008 (contingent on continued good performance under the Stand-By Arrangement with the IMF) and further progress in reaching debt reduction agreements with Iraq's non-Paris Club creditors.

Despite the achievements in 2007, much remains to be done to consolidate macroeconomic stability and put the economy on a higher growth path. Public confidence remains very low and violence is still widespread. Corruption and governance problems continue to impede the functioning of the public and private sectors.

Iraq's economic outlook for 2008 and beyond hinges crucially on further improvements in security. Public investment in the oil sector and in reconstruction and public service projects (in infrastructure and electricity, water and sanitation, and social sectors) are necessary to increase oil production and enable a recovery of non-oil activity. Building on the progress achieved in 2007, the Iraqi authorities are committed to advancing their reform agenda to bring the economy closer to its potential. ■

Figure 5b. Consumer Price Inflation: Individual Countries

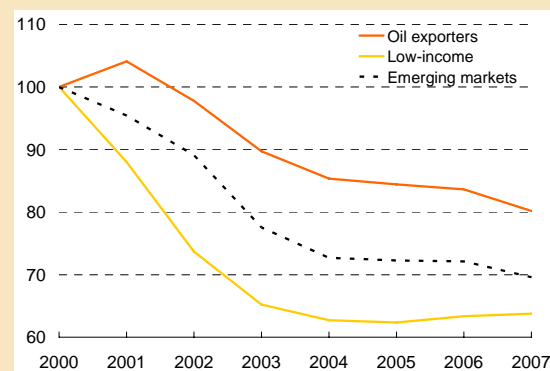
(Year average; in percent)



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

Figure 6. Nominal Effective Exchange Rates

(Index, 2000 = 100; increase indicates appreciation)



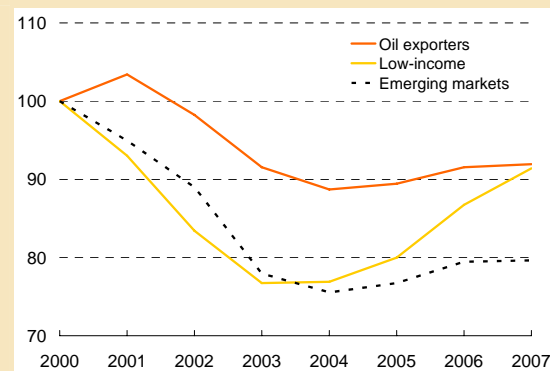
Source: IMF Information Notice System.

In Qatar and the U.A.E., the large inflow of expatriate workers and the growing propensity of local residents to upgrade housing facilities have led to a steep rise in rents, adding significantly to inflation (Box 4). At the end of 2007, inflation was running at about 20 percent in Azerbaijan, Iran, Kazakhstan, and Tajikistan. Even in Saudi Arabia, a traditionally low-inflation country, inflation reached 6½ percent by the end of the year. Maghreb countries generally managed to control inflation in 2007, although inflationary pressures are building up. In Morocco and Tunisia, appropriately tight macroeconomic policies and increased subsidies on food (and on fuel in Morocco) kept inflation in check.

Real exchange rates remained fairly stable in oil-exporting and emerging market countries, but continued to appreciate in low-income countries. In *oil-exporting countries*, the pickup in inflation offset the dollar-peg-driven nominal depreciation, leaving real exchange rates broadly unchanged (Figures 6 and 7). The weakening of the dollar played a role in the decisions of Kuwait and Syria⁶ to abandon their peg to the U.S. currency over concerns that the

Figure 7. Real Effective Exchange Rates

(Index, 2000 = 100; increase indicates appreciation)



Source: IMF Information Notice System.

depreciating dollar was fueling domestic inflation. Most *emerging markets* avoided further real appreciation by controlling inflation and allowing their currencies to depreciate slightly in nominal terms. In *low-income countries*, persistent high inflation combined with fairly stable nominal exchange rates led to further real appreciation. Their larger current account deficits were fully financed by buoyant capital inflows.

⁶Kuwait switched to an undisclosed currency basket and Syria switched the referencing of its currency to the SDR.

Box 4. The Rise in Inflation in the GCC Countries

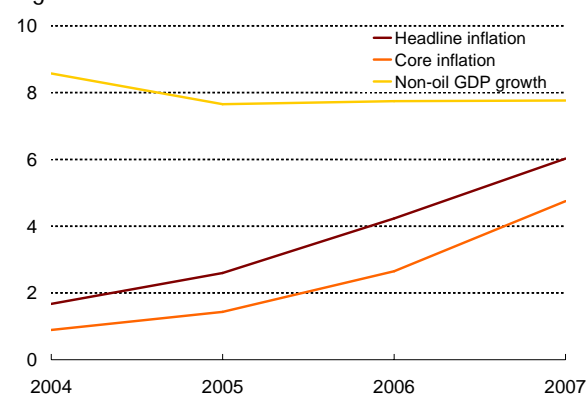
Rising inflation is a growing concern among all GCC countries. Contributing factors include rising demand from large investment projects, a fast-growing population fueled by an influx of expatriates, supply-side bottlenecks, and rising costs of imported food, raw materials, and capital equipment.

The recent economic performance of the GCC countries has been impressive. Over the past five years, the GCC countries grew at an annual rate of about 7 percent, owing to record-high oil prices and a rapidly growing non-oil sector (Figure B4.1). However, the expansion has been accompanied by a general increase in consumer prices. Headline inflation averaged about 6 percent in 2007, with core inflation tracking closely behind at 5 percent.

Both domestic and external factors have contributed to the rising inflation. On the domestic front, aggregate demand has been growing rapidly. Gross capital formation, including public and private investment, increased from about 35 percent of non-oil GDP in 2003 to about 48 percent in 2007. Since 2003, government current spending has risen cumulatively by 58 percent, mainly reflecting increases in wages and subsidies. The private sector has contributed significantly to the spending boom, supported by inflows of FDI and increasing external and domestic debt (Figure B4.2). In particular, domestic credit has expanded rapidly, growing at about 30 percent a year since 2004, and reaching an estimated 56 percent of GDP in 2007.

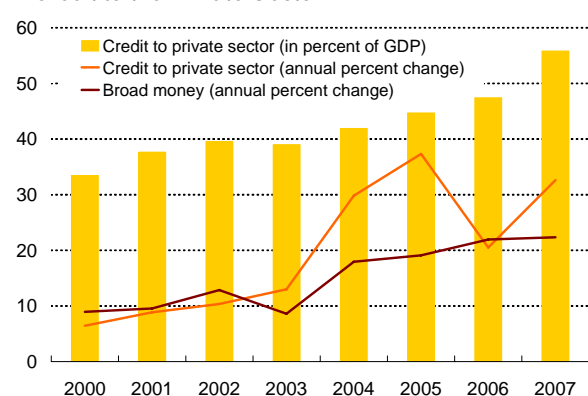
Supply constraints have contributed significantly to inflationary pressures in a number of nontradable sectors, especially construction. Specifically, shortages of residential and commercial housing units have led to higher rents. In Qatar and the U.A.E., which have the

Figure B4.1. Growth and Inflation in the GCC



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

Figure B4.2. GCC: Growth of Broad Money and Credit to the Private Sector



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

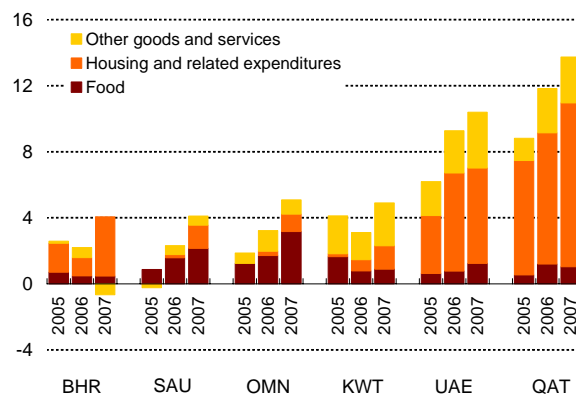
Box 4 (concluded)

highest inflation rates in the GCC countries, and more recently in Kuwait and Oman, rising housing costs have been the main driver of inflation (Figure B4.3). In Qatar and the U.A.E., the housing markets have been further strained by a rapidly growing population—spurred by a large inflow of expatriates—and the opening up of real estate markets to foreign buyers.

Consumer price inflation has also been affected by external factors. Rising international prices of food, capital equipment, and raw materials have added to inflationary pressures in goods and services with a large import content. The depreciation of the U.S. dollar—to which GCC countries' currencies, except that of Kuwait, are pegged—vis-à-vis other major currencies has also contributed to inflationary pressures, but to a lesser extent. In fact, the GCC countries' average nominal effective exchange rate (NEER) was relatively flat during 2004–06, but inflation in the region was rising (Figure B4.4). In the high-inflation countries, such as Qatar and the U.A.E., inflation rose much faster than the rate of depreciation of the NEER.

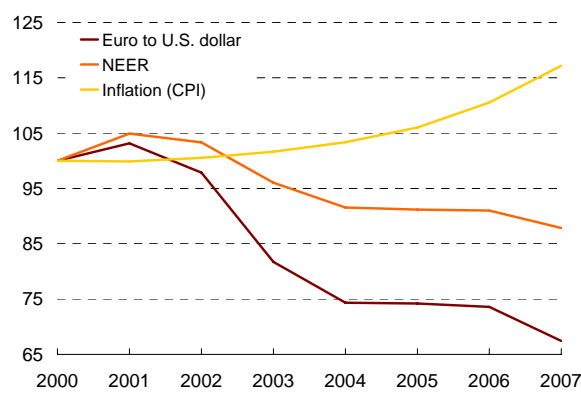
Over the medium term, substantial domestic investments will continue to drive economic growth. Aggregate demand is expected to remain strong, fueled by high oil prices and robust growth in the non-oil sector. At the same time, supply constraints are expected to ease, especially if more rental units come on the market. While inflation is projected to increase slightly to about 7 percent on average in 2008, it is expected to gradually decrease over the medium term. ■

Figure B4.3. Contribution to CPI Inflation in the GCC (In percent)



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

Figure B4.4. GCC: Exchange Rates and Inflation (Index, 2000 = 100)



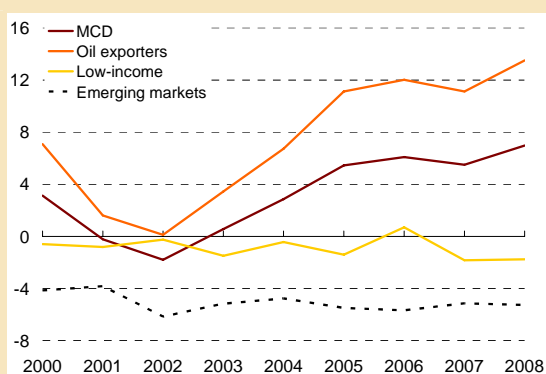
Sources: Data provided by country authorities; and IMF staff calculations.

Fiscal savings declined in 2007, led by a fall in the surplus of oil exporters. Nonetheless, the region registered an overall budget surplus of 5½ percent of GDP, allowing a strengthening of public balance sheets and a reduction in external vulnerabilities as international reserves increased and reliance on external borrowing declined (Figures 8a, 8b, and 9).

- With the exception of Azerbaijan, Kazakhstan, and Libya, where the oil-boom-financed fiscal expansion is in full swing, the fiscal expansion in the other *oil exporters* moderated, with non-oil fiscal deficits leveling off or declining (Figure 10). In Syria, further cuts in capital spending allowed a timely adjustment to the precipitous decline

Figure 8a. Government Fiscal Balance: Country Aggregates

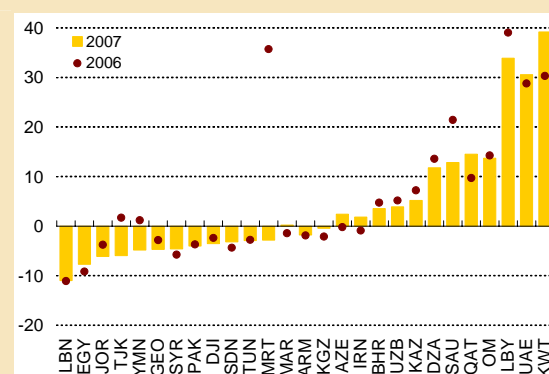
(In percent of GDP)



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

Figure 8b. Government Fiscal Balance: Individual Countries

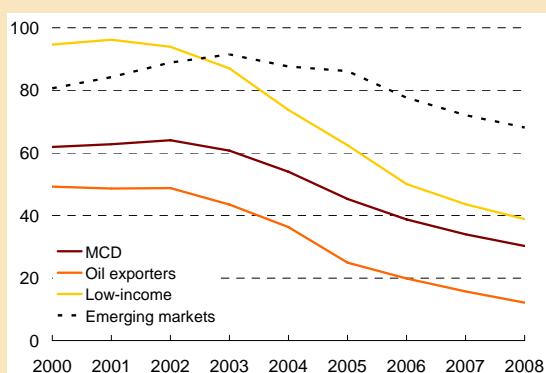
(In percent of GDP)



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

Figure 9. Total Government Debt

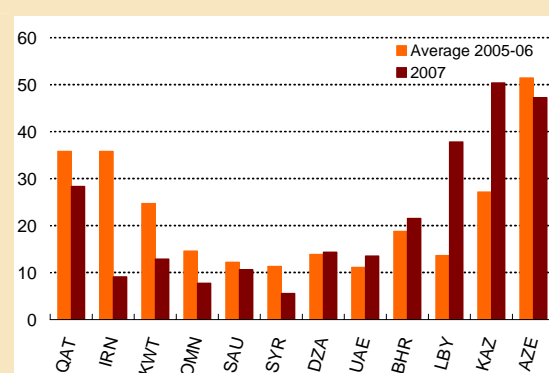
(In percent of GDP)



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

Figure 10. Government Expenditure in Oil Exporters

(Nominal; annual change; in percent)



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

in oil revenues. For the group of oil exporters, the average saving rate of fiscal oil revenues—the ratio of the overall fiscal balance to fiscal oil receipts—is estimated to have declined from 46 percent in 2005–06 to 43 percent in 2007. Oil exporters are spending a substantial share of the increase in oil revenue on infrastructure and social programs and on measures aimed at diversifying the economy (Box 5).

- In *low-income countries*, fiscal performance has been generally satisfactory. In Djibouti, fiscal policy has been supportive of the economy's revival. Fiscal consolidation in the Kyrgyz Republic has resulted in a declining debt-to-GDP ratio. In Mauritania, the fiscal position strengthened further, benefiting from the modernization of tax administration and computerization of budget execution. However, in Sudan, problems in public finance management led to the further accumulation of domestic arrears, while in Georgia, a marked loosening of fiscal policy contributed to large current account deficits and inflationary pressures.
- In most *emerging market economies*, fiscal policies were aimed at further fiscal consolidation in the context of dynamic private sector activities. Buoyant tax revenues and wage restraint offset an increase in subsidies (to mitigate the effect of rising fuel and food prices). This kept the fiscal deficits broadly unchanged, which, combined with privatization receipts, allowed some progress toward lowering debt-to-GDP ratios.

The course of **monetary policy** across the region has been largely shaped by existing exchange rate regimes.

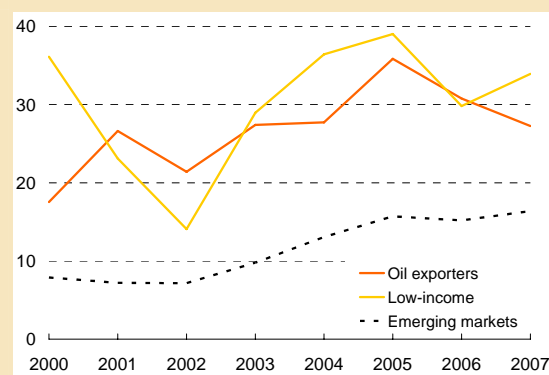
- In oil-producing countries with currencies de jure or de facto pegged to the U.S. dollar, the widening discrepancy between their business cycle and that of the U.S. economy has created challenges for monetary management and mounting pressures for a revaluation.

Central banks had to lower interest rates in line with the monetary easing in the United States. Real interest rates became increasingly negative, spurring rapid credit growth and adding demand pressures to already overheated economies (Figure 11).

- In countries that enjoy greater monetary independence, monetary policies have generally been geared toward reining in inflation. Egypt allowed some appreciation of its currency and raised policy interest rates to contain money and credit expansion. Tunisia sought to slow credit growth by raising the reserve requirement in the context of higher prices of oil and basic commodities and a further depreciation of its currency. In the context of moderating inflation and a slowing economy, Morocco eased monetary policy toward the end of the year. In Kazakhstan, despite some measures taken in 2006 and early 2007 to tighten monetary policy, credit continued to grow at rates close to 100 percent. When the credit squeeze hit in September, the authorities changed course, injecting liquidity through a number of channels. Once the situation had stabilized, and in the context of soaring inflation, the National Bank of Kazakhstan

Figure 11. Credit to the Private Sector

(Annual change; in percent)



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

Box 5. Algeria's Experience with Managing Hydrocarbon Wealth

Sound management of hydrocarbon wealth has helped Algeria achieve macroeconomic stability, with very comfortable fiscal and external positions. Deeper structural reforms, especially in financial intermediation, are needed to diversify the economy and further reduce unemployment.

Algeria is the world's third-largest exporter of natural gas and the world's tenth-largest oil exporter. The authorities have been committed to the sound management of associated hydrocarbon revenues through prudent macroeconomic policies, a liberal trade regime, and structural reforms aimed at economic diversification. Efforts are starting to bear fruit, but more needs to be done to reduce the economy's dependence on hydrocarbons (almost all its exports) and to create jobs for the young labor force.

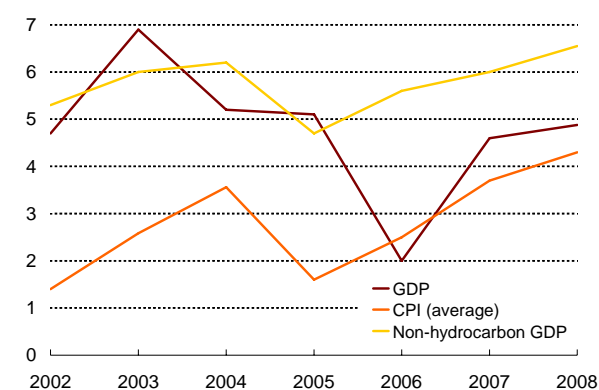
Annual GDP growth has averaged about 5 percent since 2002, reflecting both higher hydrocarbon growth and strong activity in the nonhydrocarbon sector (Figure B5.1). Inflation remained subdued and unemployment declined steadily to 12 percent in 2006, although it is double that among the youth. Hydrocarbon export receipts have considerably strengthened both the fiscal and external positions (Figure B5.2). The external current account surplus increased to 23 percent of GDP in 2007 from about 8 percent in 2002, despite the doubling of imports over this period. The overall fiscal surplus rose to almost 12 percent of GDP in 2007 from zero in 2002. The overall fiscal surplus rose to almost 12 percent of GDP in 2007 from zero in 2002.

Market-based policies have increasingly aimed at diversifying the economy and promoting a dynamic private sector. Trade liberalization included tariff reform (2001), the Association Agreement with the European Union (2005), and progress toward accession to the World Trade Organization. The authorities have also pursued financial sector reforms, with progress in banking supervision, the operating environment for financial intermediation, public banks' governance, entry of foreign banks, and the development of the local corporate bond market.

Hydrocarbon wealth has allowed the government to (1) launch a massive public investment program for 2005–09 (US\$155 billion or 120 percent of 2007 GDP)

Figure B5.1. Real Sector Developments

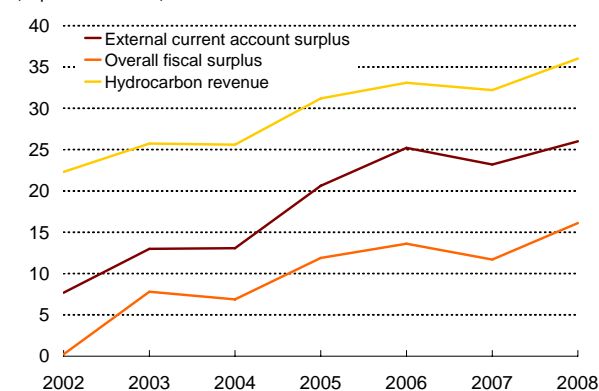
(Growth rates; in percent)



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

Figure B5.2. Fiscal and External Developments

(In percent of GDP)



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

Box 5 (concluded)

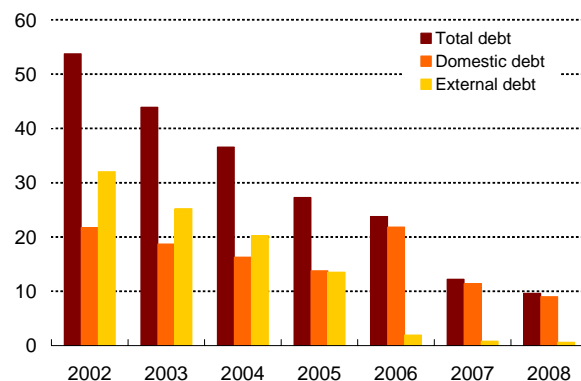
to improve infrastructure, housing, and the delivery of public services; (2) rationalize the tax system and cut tax rates; and (3) reduce gross public debt to 12 percent of GDP in 2007 from more than 50 percent in 2002 (Figure B5.3). Nevertheless, official reserves now exceed US\$100 billion, and the authorities have saved about half of hydrocarbon budget revenues in a hydrocarbon stabilization fund (FRR) that was established in 2000.

The authorities view the FRR as a temporary stabilization fund. The FRR does not have governance arrangements that characterize sovereign wealth funds; it is a mere subaccount of the government at the central bank. The account is denominated in local currency and remunerated at the same rate of interest as the one-year Algerian treasury bill. Outflows from the FRR finance government spending in excess of nonhydrocarbon budget revenues and pay down public debt.

About one-third of hydrocarbon export receipts accrue to the oil sector and have boosted the cash reserves of Sonatrach, the national oil company. As a result, Sonatrach has announced plans to invest about US\$50 billion over the next few years. Investments are mainly in exploration and development of new fields in Algeria, with the objectives of lifting output capacity in crude oil from 1.4 mbd to 2 mbd, and increasing natural gas exports from 62 billion cubic meters a year to 85 billion. Other planned investments are scheduled to develop local downstream activities and oil and natural gas assets outside Algeria. Most of Sonatrach's investments will be made in conjunction with foreign associates, continuing the policy of opening up the hydrocarbon sector, which Algeria began in 1986.

Algeria's economic outlook is positive. In the short term, however, the ongoing public investment program could generate inflationary pressures. In the medium term, the acceleration in nonhydrocarbon growth could prove short lived if the public investment program does not generate a lasting domestic supply response. Sustaining the recent favorable economic performance and further reducing unemployment would require (1) ensuring that the ongoing expansionary stance of fiscal policy does not threaten macroeconomic stability or the quality of government spending; and (2) deepening structural reforms, especially in the financial sector, to improve Algeria's low productivity and sustain the growth of the nonhydrocarbon sector. ■

Figure B5.3. Public Debt
(In percent of GDP)



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

shifted its stance slightly, raising the policy interest rate from 9 percent to 11 percent in November.

- In countries with shallow banking sectors, the process of remonetization and financial deepening continued, although the rapid expansion of credit has raised not only inflationary risks but also risks to the quality of banks' portfolios (Figures 11 and 12). In Armenia, broad money—and in particular dram broad money—has been growing rapidly, reflecting dedollarization and remonetization, increased confidence in the banking system, and an appreciating currency. Driven by mortgage and consumer loans, private sector credit growth accelerated significantly, exceeding 75 percent by year-end.

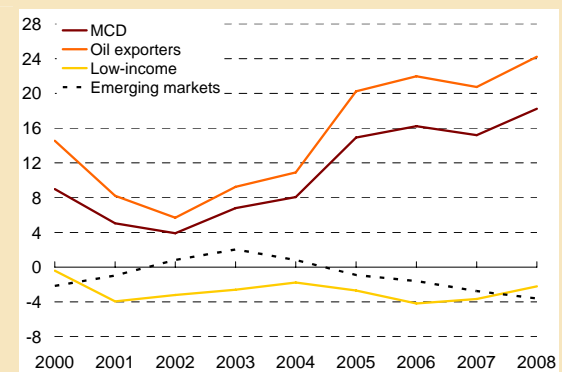
Notwithstanding the further rise in oil revenue for the region, the sustained expansion of MCD imports has made a positive net contribution to global growth and helped the narrowing of global imbalances (Box 6). The overall current account surplus of the region declined to 15 percent of GDP from 16¼ percent in 2006 (Figures 13a and 13b). Reflecting greater financial integration into the world economy,

gross capital flows into and out of the region have also increased at a brisk pace.

- For *oil exporters*, the value of oil exports reached almost US\$700 billion in 2007 (4 percent of world exports), about 15 percent higher than in 2006, with the rise in oil prices fully offsetting the small drop in export volumes from 20.9 mbd in 2006 to 20.6 mbd in 2007. The rapid growth of

Figure 13a. External Current Account Balance: Country Aggregates

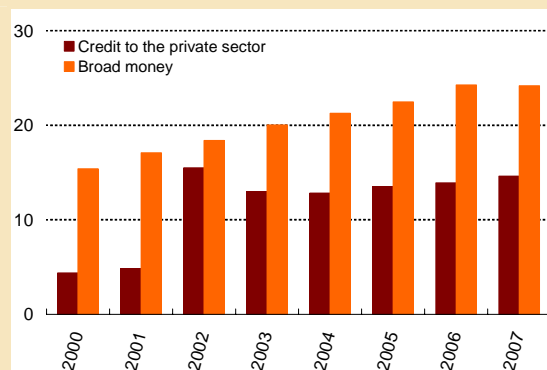
(In percent of GDP)



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

Figure 12. Money and Credit to the Private Sector in Low-Income Countries

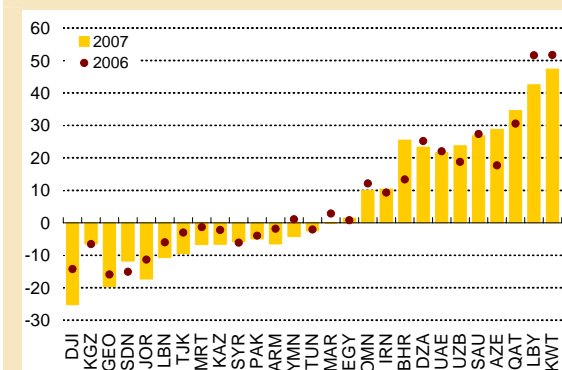
(In percent of GDP)



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

Figure 13b. External Current Account Balance: Individual Countries

(In percent of GDP)



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

Box 6. Oil Income: What Is Being Done with It?

A massive program of much-needed infrastructure upgrading and social spending is under way in MCD oil-exporting countries. With higher world oil prices boosting export incomes even further, the narrowing of the region's external surpluses will be more modest than previously envisaged. Nevertheless, the countries' latest budget plans imply a large increase in spending, which will provide welcome support to global economic demand.

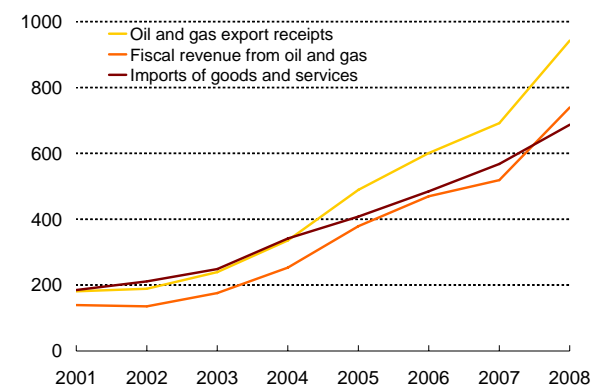
The region's oil and gas export receipts are likely to amount to US\$940 billion in 2008, close to US\$200 billion more than was envisaged late last year (Figure B6.1). For the most part, this reflects higher world oil prices, which are now projected to average over US\$95 a barrel (based on prevailing futures market prices), compared with US\$75 in October 2007. This represents an almost fivefold increase from the annual levels at the start of the decade. On the fiscal side, government revenue from oil and gas is now estimated at close to US\$740 billion in 2008, about US\$160 billion more than expected a few months ago.

Higher income is translating into rapid import growth. Reflecting the major investment programs as well as an expansion in consumer spending, the region's share of global imports of goods and services has risen from under 2½ percent in 2001 to almost 4 percent (projected) in 2008 (Figure B6.2). A major factor underlying the acceleration of imports has been the marked pickup in fiscal spending, where the growth of budgetary expenditures has averaged almost 20 percent annually in recent years. Thus, greater fiscal spending—and the associated increase in the region's imports—is supporting demand for goods and services from the rest of the world.

The overall financial position of the region as a whole remains very comfortable, even with the large spending increase. With external and fiscal surpluses continuing due to high oil prices, the countries' net external assets are continuing to grow. During 2004–08, the region's cumulative overall fiscal surplus will amount to about US\$1 trillion, while the cumulative external current account surplus could be as high as US\$1.4 trillion. In other words, MCD oil-exporting countries are in the enviable position of enjoying the benefits of sizable spending increases while continuing to save substantial amounts for the future. ■

Figure B6.1. Oil Income and Imports

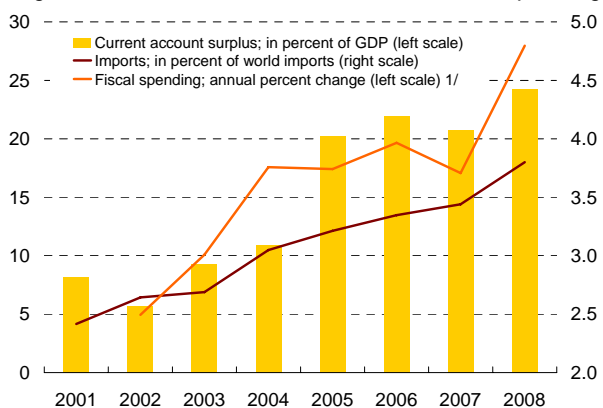
(In billions of U.S. dollars)



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

Note: Data for 2001–03 exclude Iraq.

Figure B6.2. Current Account and Oil-Income Spending



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

Note: Data for 2001–03 exclude Iraq.

¹Excludes Iraq.

imports limited the increase in the current account surplus to about US\$320 billion, of which about US\$150 billion was invested abroad in public and private placements and the remaining US\$170 billion added to international reserves, which reached about US\$726 billion (Figure 14).

- Current account positions remained broadly unchanged in most emerging market countries, except in Morocco, where a sharp increase in food imports to offset the loss of domestic crops led to a sizable drop in the current account surplus. In Pakistan, notwithstanding a significant decline in import growth, the current account deficit widened to 4.9 percent of GDP, owing mainly to significantly slower export growth. The deficit was more than covered, however, by record-high capital inflows. The increase in the current account deficit in Lebanon reflects the recovery of imports following their one-off drop during the 33-day war in 2006.
- The widening of the current account deficits in most *low-income countries* was driven mainly by buoyant domestic demand, which led to a sharp rise in imports. In Djibouti, this reflected mainly a boom in foreign-financed investment. In Tajikistan, it reflected large investments in power generation and roads financed by foreign borrowing. By contrast, Uzbekistan continued to generate large and growing current account surpluses, boosted by remittances and strong export growth, in the context of a restrictive trade regime.

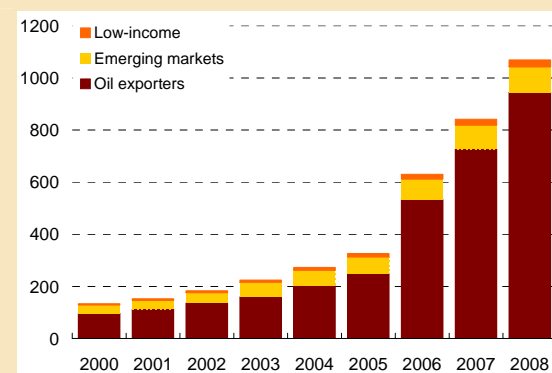
FDI inflows to MCD countries topped US\$80 billion in 2007, four times the level in 2002. Egypt, Saudi Arabia (mainly in the oil sector), and the U.A.E. were the largest recipients, accounting for 55 percent of the total. Regarding the region's FDI abroad, including intraregional FDI, Saudi Arabia and

the U.A.E. accounted for 70 percent of the total US\$45 billion. Net financial outflows (portfolio investments, loans, deposits, and trade credits) have tripled since 2002 to over US\$140 billion. Three-fourths of the total reflects the investment abroad of oil revenues from Kuwait, Saudi Arabia, and the U.A.E. For the region as a whole, the large current account surplus and a balanced capital account resulted in a substantial increase in official reserves, which reached US\$800 billion by year-end.

Equity markets in the GCC countries rebounded after a major correction in 2006. The benchmark Saudi stock market index recorded a gain of 44 percent from a low at end-2006, but ended 2007 well below the peak of February 2006. The resurgence in market activity was driven by strong corporate profits in the petrochemical, banking, and construction sectors. The U.A.E. stock exchange index and the Doha Securities Market index performed strongly in 2007, ending the year with gains of 46 percent and 34 percent, respectively, but still

Figure 14. Gross Official Reserves

(In billions of U.S. dollars)



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

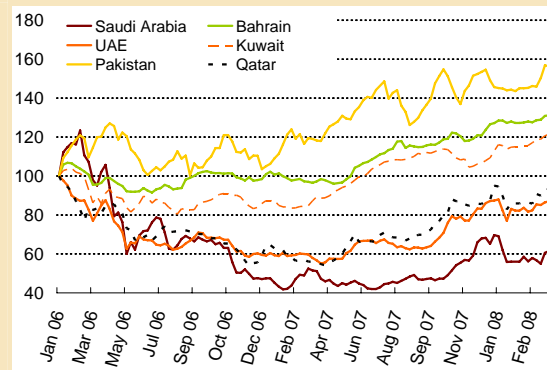
below their peaks. In Pakistan, following a strong rally since mid-2005, heightened political uncertainties and security concerns weakened investor confidence toward the end of the year. The Karachi Stock Exchange Index dropped in the aftermath of former Prime Minister Benazir Bhutto's assassination, while the Emerging Markets Bond Index Global (EMBIG) spread

on Pakistani sovereign bonds rose to about 600 basis points (Figures 15 and 16).

Regionwide, there is also evidence of a rapid increase in real estate prices, although it is difficult to assess whether this reflects simply the changing fundamentals or whether prices are diverging from equilibrium levels. ■

Figure 15. Stock Market Indices in Selected Countries

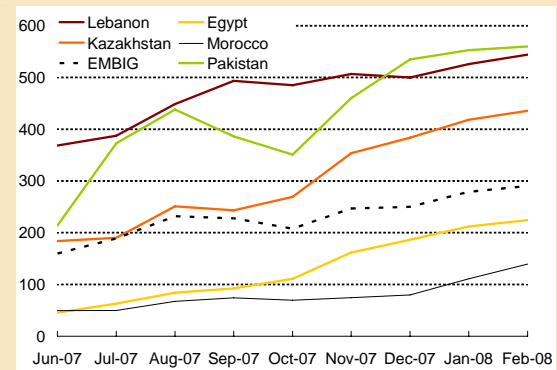
(December 2006 = 100)



Source: Bloomberg.

Figure 16. Sovereign Spreads in Selected Countries

(In basis points)



Source: Bloomberg.

Economic Outlook and Policy Challenges



Photos on previous page:

Top left: Workers in Sulfur Pit—Kazakhstan. By Robert Wallis/Corbis

Top right: Construction Workers—Oman. By Corbis

Bottom left: Fishing in the Suez Canal—Egypt. By Khaled El-Fiqi/epa/Corbis

Bottom right: Cotton Harvest—Uzbekistan. By Richard Wayman/Corbis Sygma

Economic Outlook

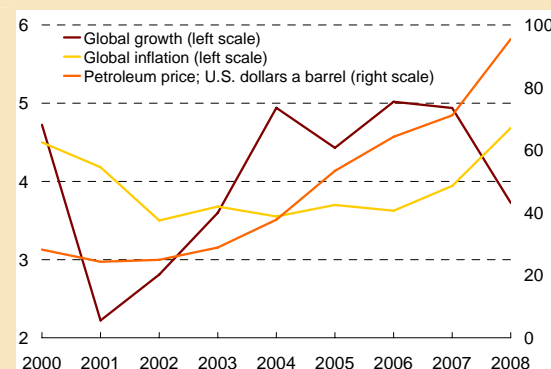
World economic outlook⁷

The financial turmoil that erupted in August 2007 and developed into possibly the worst financial shock since the end of World War II has slowed the global expansion. Economic activity in advanced economies decelerated sharply toward the end of the year as the crisis in the U.S. subprime mortgage market spread across a range of financial institutions and markets. The weakening of growth was most pronounced in the United States. Emerging market and developing countries have thus far been less affected and continue to grow at a rapid pace, owing to positive terms of trade movements from the increase in oil and commodity prices, strong productivity gains resulting from greater integration into the global economy, and improved policy frameworks that have underpinned sustained access to capital. Headline inflation has increased around the world, fueled by high oil and commodity prices; in many developing and emerging market countries, more generalized inflationary pressures are being sustained by strong growth in domestic demand (Figure 17).

Food and energy prices soared in 2007 on account of strong demand amid tight supply conditions (Figures 17 and 18). Beyond temporary factors such as speculation and

Figure 17. Global Outlook

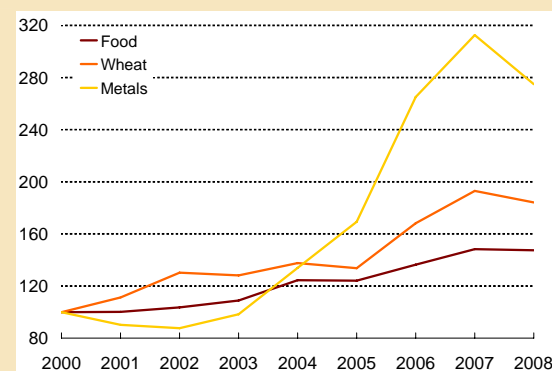
(Annual change; in percent; unless otherwise indicated)



Source: IMF, *World Economic Outlook*.

Figure 18. International Commodity Prices

(Index, 2000 = 100)



Source: IMF, *World Economic Outlook*.

⁷Based on the IMF's April 2008 *World Economic Outlook*.

weather-related production shutdowns, the sharp increase in oil prices in 2007 was due to sustained oil market tightness (Box 7). The latter reflects the slow adjustment to higher demand from emerging markets, with global demand being relatively price inelastic in the short run and global capacity responding very slowly.⁸ The increase in food prices, particularly of grains and edible oils, reflected strong growth of per capita income in developing countries, rising biofuel production, and tight supply conditions.

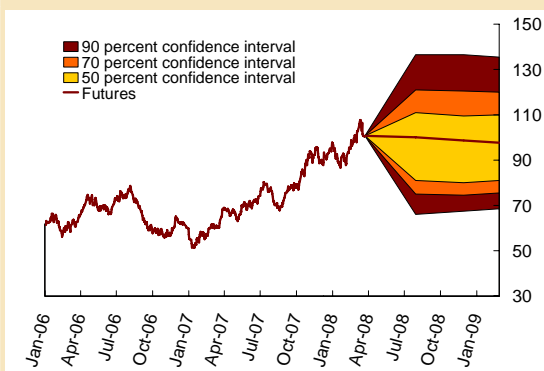
Looking forward, oil markets are expected to remain tight through 2008, with oil prices averaging about US\$95 a barrel (Figure 19). While non-OPEC supply should increase slightly, OPEC seems unlikely to raise production given the prospects of lower growth in advanced economies. Global demand is expected to continue to rise at a moderate pace. The near-term balance of risk to oil prices is on the upside, as prices remain sensitive to tight supply and geopolitical uncertainty. In this regard, Saudi Arabia's continued constructive role will be vital for global oil market stability.

Its planned investments are US\$80 billion over the medium term, with a view to expanding production capacity in the oil sector by 37 percent to 12.5 mbd and refining capacity by 43 percent to about 6 mbd. A further US\$170 billion in oil investment is planned by the other GCC countries. Similarly, food prices are expected to peak in 2008 but ease gradually thereafter. But here too, the balance of risk is tilted to the upside because of the diversion of agriculture toward biofuel production and strong demand from developing countries.

Global growth is projected to moderate to 3.7 percent in 2008 from 4.9 percent in 2007 and remain broadly unchanged in 2009 (Figure 20). This is predicated on commodity prices remaining roughly at their end-2007 levels and on conditions in the financial markets stabilizing only gradually during 2008, maintaining risk spreads substantially wider than those that prevailed before August 2007. Growth in advanced economies is projected to fall from 2.7 percent in 2007 to 1.3 percent in 2008, with the United States moving into a mild

Figure 19. Brent Crude Oil Prices

(In U.S. dollars a barrel)

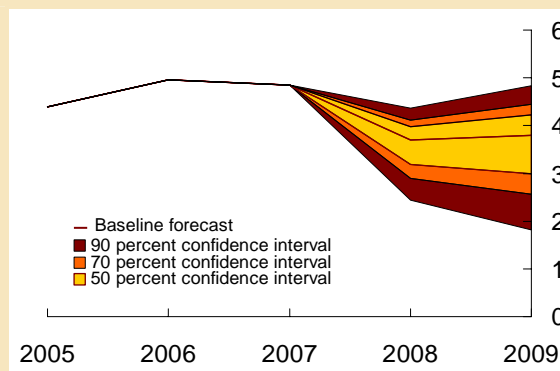


Source: IMF, *World Economic Outlook*.

Note: Projections based on futures markets.

Figure 20. Global Growth Forecast

(In percent)



Source: IMF, *World Economic Outlook*.

⁸IMF staff estimates suggest that global demand responds to price changes with a lag of up to four years, owing to limited pass-through of increases in oil prices to consumers in developing countries and to rigidities in households' energy demand in some industrial countries.

Box 7. Oil Prices: Fundamentals or Speculation?

Oil prices have continued to break records in 2008 (at over US\$100 a barrel, and reaching a historical high of US\$119 a barrel on April 22), even while it is widely believed that the U.S. economy is sliding into recession. At these levels, are oil prices being driven by fundamentals or by speculation?

Since 1970 there have been five global recessions (with world economic growth falling to about 2½ percent a year or less). The first two (1974–75 and 1980–82) were associated with large prior hikes in oil prices (reflecting supply shocks). As Figure B7.1 shows, real oil prices did not immediately fall when the recessions began.¹ Oil prices remained quite firm one year into each of the recessions, and did not fall significantly until world economic growth had clearly recovered. By contrast, the following three recessions (1991–93, 1998, and 2001) were associated with declines in real oil prices at the outset (although these declines were not particularly large). Why the difference?

It is possible that the Organization of Petroleum Exporting Countries (OPEC) had greater market control in the 1970s than it did during the 1990s. As a result, it was easier to prevent falls in oil prices (as demand weakened) in the 1970s than it was in the 1990s.

This observed pattern suggests that it would take a global recession to bring about a major decline in oil prices. Currently, the IMF is projecting a decline in world growth to 3.7 percent, which means that oil prices should not be expected to fall sharply if they are being driven solely by economic growth (“fundamentals”). Even if the world does go into a recession, history suggests that the effect on oil prices could be lagged, depending on how much discipline OPEC is able to exert.

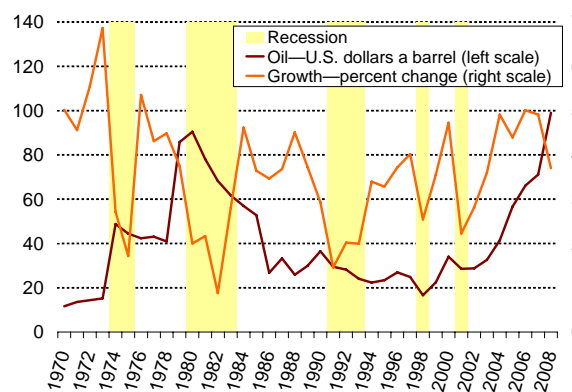
It is hard to explain current oil prices in terms of fundamentals alone. The recent surge in the oil price (from US\$80 to over US\$100 a barrel) seems to go well beyond what would be indicated by the growth of the world economy. Producers and many analysts say it is speculative activity that is pushing up oil prices now. Producers in particular argue that fundamentals would yield an oil price of about US\$80 a barrel, with the rest being the result of speculative activity.

It is difficult to get a direct measure of speculative activity. It is true that open positions in oil futures more than doubled in size over 2003–07. Net long noncommercial positions at the New York Mercantile Exchange briefly reached new highs in mid-2007, after which they declined. Yet prices have stayed high even as these speculative positions were unwound. Moreover, there is evidence that changes in net long noncommercial positions generally follow price changes rather than lead them. So this line of reasoning would imply that speculation is not the cause of recent increases in oil prices.²

¹Real oil prices are defined as the nominal price deflated by the U.S. consumer price index (CPI).

²It should be noted that the distinction between commercial and noncommercial positions in oil futures is difficult to make. Total positions may be a better indicator of speculative activity.

Figure B7.1. Real Oil Prices and World Growth



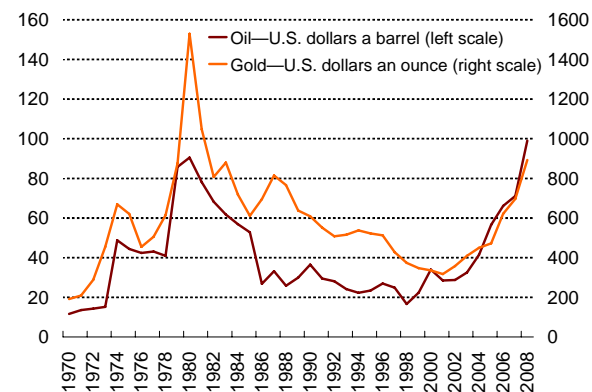
Sources: Data provided by country authorities; and IMF staff calculations.

Box 7 (concluded)

Another way to get a sense of speculative activity is to compare movements in the real price of oil with the real price of gold. This relationship has been surprisingly close for a long period of time (Figure B7.2). Gold is well known to be a highly speculative commodity, driven by factors other than derived demand. One could reasonably argue that this relationship, which has continued in 2008, is evidence of speculative behavior in oil. If the oil price does fall significantly in the near term, it may reflect more the unwinding of speculative positions in both gold and oil than indicate that a recession is under way.

In summary, it appears that speculation has played a significant role in the run-up in oil prices as the U.S. dollar has weakened and investors have looked for a hedge in oil futures (and gold). As financial market conditions settle down, fundamentals should take over and oil prices should come down further from the highs recently observed. How far they will come down will depend on how the world economy is doing, and if history is to be a guide, they will come down slowly. ■

Figure B7.2. Oil and Gold Prices Deflated by U.S. CPI
(Base year = 2007)



Source: IMF, *World Economic Outlook*.

recession. Growth in emerging markets and developing countries is projected to slow to 6.7 percent from 7.9 percent in 2007, reflecting efforts to prevent overheating in some countries as well as trade spillovers and some moderation in commodity prices. Inflation is expected to remain high in the first half of 2008, but should decline gradually thereafter, as commodity prices stabilize and slack in some countries emerges.

Risks to the baseline projection, however, are significantly to the downside, with the greatest risk coming from the still-unfolding events in financial markets and their potential impact on global activity. The recession in the United States could be more severe if the correction in housing prices and ensuing deterioration of households' net worth are more pronounced.

There is also a risk that the credit crunch might intensify, as both engines of credit creation—the banking system and the securities markets—are being impaired at the same time. Similar housing price corrections in other countries in Europe, although likely to be less pronounced, could also weigh down global growth. Continued inflationary pressures also pose downside risks as they may constrain policymakers' room for maneuver. Emerging market economies would be affected more substantially if the advanced economies were to experience a major downturn or if the rise in sovereign spreads and the retreat in equity markets were to intensify. Emerging markets that rely on short-term cross-border borrowing to finance large current account deficits are also more vulnerable to persistent turbulence in financial markets. ■

Outlook for the MCD region

The MCD region is expected to remain comparatively resilient to global uncertainty. The short-term outlook remains favorable and has changed little compared with the projections in the October 2007 *Regional Economic Outlook: Middle East and Central Asia*, notwithstanding the downward revision in global growth and the uncertainty about the scope and depth of the ongoing turmoil in financial markets.

- In *oil exporters*, growth is expected to remain at about 6¼ percent, with a pickup in oil production compensating for a moderate slowdown in the non-oil sectors. Large investments made in previous years should support productivity gains and sustain high growth. In the GCC countries, given the comfortable foreign asset position, government-planned investment programs are likely to be maintained even if oil prices decline. But the global credit squeeze could affect the pace of project implementation. In Kazakhstan, the construction and real estate sectors are expected to be significantly affected by the decline in credit growth, with real GDP growth projected to ease to 5 percent in 2008 from 8.5 percent in 2007.
- In *low-income countries*, growth is expected to moderate somewhat but would remain at about 7 percent. Improved policy frameworks, structural reforms, a pickup in private investment, and better public infrastructure are supporting high productivity gains, which could sustain growth in the 6–7 percent range over the

medium term. In Djibouti, growth is expected to accelerate further, driven by the implementation of large FDI-financed projects and policies to ensure that growth is not confined to the enclave around the port. In Georgia, the tightening of fiscal and monetary policies, combined with less favorable global conditions and increased political uncertainty, could dampen growth somewhat, although it is still expected to remain at a very healthy 9 percent.

- The short- and medium-term growth prospects of *emerging market economies* are favorable, provided governments continue to pursue fiscal consolidation and structural reforms to boost business confidence and improve the investment climate. Lebanon's recovery should maintain momentum and a growth takeoff is likely once political tensions are resolved. Growth in Morocco should rebound as agricultural output recovers, and solid growth in Egypt, Pakistan, and Tunisia is expected to continue.

The **inflationary pressures** that have accompanied the economic expansion of the past few years are unlikely to abate. This applies particularly to Algeria and Libya, where the stance of fiscal policy is expected to remain expansionary. In oil-producing countries that peg their currencies to the U.S. dollar, past and prospective monetary easing could increase inflationary pressures, although the removal of supply bottlenecks might alleviate some of these

pressures (notably in Kuwait, Qatar, and the U.A.E., where the completion of a large number of new housing units should slow the escalation of rental costs). Wages are meanwhile being bid upward by the weakening dollar, which is reducing the send-home value of expatriate pay, and improved labor market conditions in expatriates' home countries. In countries where core inflation has so far been fairly stable but where headline inflation is being driven up by fuel and other commodity prices, there are concerns that second-round effects could start a wage-price spiral.

The MCD region's **fiscal surplus** is expected to increase moderately in 2008, reversing the decline in 2007. This would be driven mainly by an increase in the fiscal surplus of *oil-exporting countries* to 13¾ percent of GDP from 11 percent in 2007, as the projected increase in oil revenues outweighs further widening of the non-oil budget deficit. In line with the policy plans adopted in the context of the 2007 multilateral consultation on global imbalances, Saudi Arabia is ramping up spending on much-needed social and economic infrastructure. IMF staff projections suggest that the 2008 budget outturn will be markedly more expansionary than in 2007, with the non-oil budget deficit projected to widen by 8 percentage points of non-oil GDP to over 60 percent. *Low-income countries* and *emerging markets* are expected to maintain prudent fiscal policies in 2008, except Tajikistan, where the sharp increase in budget appropriations is likely to lead to a widening of the budget deficit of 2 percentage points of GDP. Although debt-to-GDP ratios are still projected to decline, lower revenues and higher budget subsidies in Pakistan, and an acceleration in capital spending and civil service hiring in Morocco, could lead to a deterioration in their fiscal deficits. In the West Bank and Gaza, the necessary fiscal adjustment will require close cooperation and prompt action by all shareholders (Box 8).

Notwithstanding continued strength in import growth (20 percent in U.S. dollar terms), the expected further rise in oil prices will keep the region's **current account surplus** at about 18¼ percent of GDP in 2008, leading to further accumulation of international reserves. For *oil exporters*, the current account surplus could rise to 24¼ percent of GDP, despite a substantial widening of non-oil current account deficits in Algeria, Kuwait, Libya, and Saudi Arabia. In *emerging market economies*, current account deficits are expected to remain at a comfortable level, except in Jordan and Lebanon, where large current account deficits are likely to persist, increasing their vulnerability to reversals in capital inflows. In the case of Pakistan, the current account deficit has increased significantly, owing to higher oil import prices and continued strong aggregate demand growth. In *low-income countries* the deficit is expected to narrow, mainly because of continued large surpluses in Uzbekistan and lower projected deficits in Georgia, Sudan, and Yemen.

Risks to the outlook are broadly neutral, with downside risks from the external sector balancing upside risks to domestic demand. High oil prices and additional cuts in U.S. interest rates could stimulate further domestic demand and higher inflation in the GCC countries. Also, the rising surpluses of oil-producing countries, combined with concerns about asset quality in advanced economies, may well translate into increased inflow to the other countries in the region, fueling credit growth and domestic demand. However, a protracted slowdown in advanced economies would have a negative impact on growth in most MCD countries, as it could lead to a more substantial drop in oil prices and lower exports. The tightening of credit conditions in advanced economies may curtail the capital inflows that have supported growth in many countries in the region. A continued rise in inflation is another risk to the outlook. ■

Box 8. West Bank and Gaza: The Road to Recovery

Sustained economic recovery and fiscal adjustment will require close cooperation and prompt actions by the Palestinian Authority (PA), the government of Israel, and the donor community.

The West Bank and Gaza has faced enormous economic, political, and social challenges in recent decades. The past two years have been especially difficult. The financial sanctions imposed by many donors following the election of the Hamas-led government, together with internal turmoil, precipitated a liquidity crisis for the PA and depressed an already weak economy. Real GDP contracted by almost 5 percent in 2006, and continued on a downward path in the first half of 2007 (Figure B8.1).

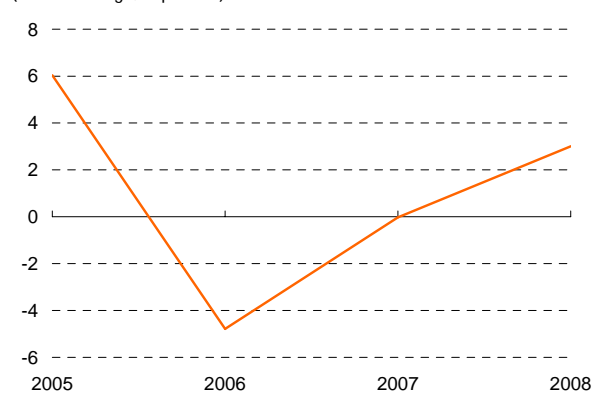
Following the formation of the government led by Prime Minister Salam Fayyad in June 2007, international financial sanctions were eased, and the Israeli government resumed the transfer of the indirect taxes (“clearance revenue”) it collects on behalf of the PA. However, Israel’s tight control over Gaza’s borders since June 2007 led to a significant decline in private sector activity there. Taking into account the negative impact of Gaza’s isolation on the overall economy, real GDP growth for the West Bank and Gaza together is estimated to be zero for 2007.

Since mid-2007 the PA has initiated important measures to reduce the budget deficit estimated at an unsustainable 27 percent of GDP in 2007 (Figure B8.2). These included tight controls on new public employment and steps to reduce utility subsidies. Public expenditure management also improved as cash controls were restored to their pre-2006 levels, allowing the PA to effectively manage donor support through the Single Treasury Account.

The Palestinian Reform and Development Plan (PRDP) for 2008–10 envisages further steps toward fiscal sustainability, good governance, and security reforms. The framework is based on three key assumptions:

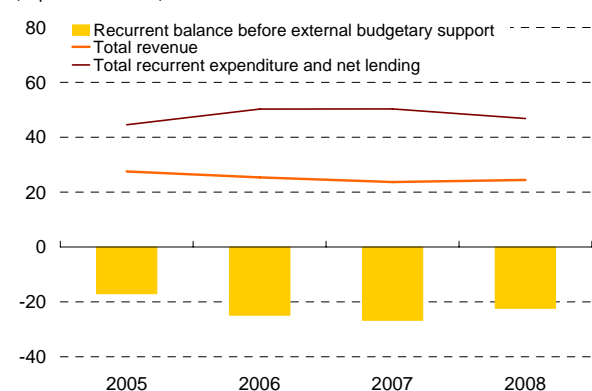
- an improved trade environment as a result of a gradual relaxation of Israeli restrictions on movement of goods and people;

Figure B8.1. Real GDP Growth
(Annual change; in percent)



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

Figure B8.2. Fiscal Indicators
(In percent of GDP)



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

Box 8 *(concluded)*

- a sustained reduction in the PA's budget deficit, supported by an expansion of private sector activity; and
- scaled-up donor assistance to cover both the recurrent budget deficit and higher public investment, facilitated by the relaxation of trade restrictions, and combined with steady fiscal consolidation.

With the above assumptions and policy expectations, real GDP growth is projected to rise from zero in 2007 to 3 percent in 2008 and to 6½ percent by 2010. The increase in donor-funded and private sector investments would gradually offset the impact of fiscal consolidation and help lay the foundations for longer-run sustainable growth.

Given this macroeconomic outlook, the recurrent budget deficit would decline from 27 percent of GDP in 2007 to under 16 percent by 2010 on the basis of (1) strict containment of the wage bill; (2) a reduction in net lending through measures to improve the incentives for municipalities and households to pay their utility bills; and (3) a strengthened cash management and commitment control system to allow higher-quality spending and better prioritization to help prevent arrears accumulation.

A number of structural reforms are also planned for the next three years: notably, (1) full-fledged civil service reform; (2) an efficient social safety net to target assistance to the truly needy; (3) reforms in the electricity sector and municipalities' public finances; and (4) a comprehensive reform of the public pension system to restore its viability.

The planned fiscal adjustment is ambitious but achievable. It will be politically very difficult, and feasible only if Israel is willing to substantially reduce its restrictions on movement and access. The continuing isolation of Gaza is a particular concern, as this could slow public investment and reforms.

The PRDP received broad support at the Paris International Donors' Conference held in December 2007. Donors pledged US\$7.4 billion, significantly above the US\$5.6 billion required under the authorities' fiscal plan. While it is difficult at this point to determine the precise mix of project and budget financing that has been pledged, a reallocation might be required to fully meet the current budget's financing needs. The conference's results provided a strong signal of political and financial support for the PA's vision of a Palestinian state. ■

Policy Challenges

Almost all countries in the region experienced a rise in inflation during 2007. The most immediate challenge for these countries is, therefore, to bring inflation back down. A number of countries in the region also have large external debts and/or widening current account deficits. These countries will need to follow policies that will reduce rollover risk and prevent a reversal of capital inflows. The appropriate policy mix will depend on the particular circumstances of each country, but would typically call for fiscal and monetary tightening, possibly allowing greater exchange rate flexibility, where appropriate. Such a stance would be relevant in countries where there has been an extended and significant period of fiscal and/or monetary stimulus, such as Algeria, Azerbaijan, and Iran. In countries where overheating has been underpinned by capital inflows, the tightening of macroeconomic policies could contain the rise of current account deficits, reduce external vulnerability, and boost investors' confidence. This is particularly important in Pakistan, where a strong fiscal effort and an end to central bank financing of the government are needed to contain the growing fiscal deficit and protect international reserves. In countries where the pickup in inflation has been triggered mainly by rising food and fuel prices, vigilance is needed to anchor inflation expectations and prevent the increase in headline inflation from spilling over into broader wage and price increases. This is especially relevant in Jordan, where reining in

the current account deficit of over 17 percent of GDP in 2007 is also a key policy challenge.

In oil-exporting countries with currencies pegged to the U.S. dollar, it will be a challenge to control inflation as long as there is continuing monetary easing in the United States. Changing the exchange rate regimes of the GCC countries at this time could be disruptive to the run-up to the planned monetary union. While the monetary authorities and financial regulators could tighten reserve requirements and prudential norms, the burden of adjustment may fall on fiscal policy. However, the room for maneuver of fiscal policy is also limited by the need for higher investment to alleviate supply bottlenecks and the political pressure for higher wages and higher spending on social programs. Nevertheless, inflation could be slowed by containing the growth of public sector wages and of other current outlays while phasing the implementation of large investment projects (with priority being given to projects that would alleviate supply bottlenecks). Fiscal policy could revert to a stance that is consistent with medium-term objectives when inflation is back under control and/or in the context of a new monetary framework. This would be particularly the case in Libya (to some extent), Oman, Qatar, and the U.A.E. In Kuwait, given the somewhat greater exchange rate flexibility, adjustment policies could aim to strike the right balance between fiscal tightening—which would require resisting pressures for greater

government spending—and currency appreciation.

Tolerating somewhat higher inflation for a while may be necessary for the GCC countries. Rising inflation at least partly reflects the adjustment to a higher real equilibrium exchange rate under the peg. Although in the short term tighter fiscal policy could help contain inflation, this may be politically difficult if citizens press for a broader distribution of their countries' oil wealth.

Clearly, the optimal response to an increase in oil wealth would include an appropriate increase in consumption, including by the government. If this consumption is not to lead to inflation, however, it will be critical for the government to help expand absorptive capacity, particularly by investing in the nontradable sector, such as in infrastructure and social services.

In countries where inflation is less of a concern, fiscal policy could play a useful role in supporting the economy should it be affected more significantly by a downturn in advanced economies. However, this should be consistent with their medium-term fiscal consolidation goals. If there is room to provide a fiscal stimulus, it should be directed toward investment spending in support of sustainable growth over the medium term. In Kazakhstan, given the large budget surplus, and in view of the pressing social and infrastructure needs, there is room for some limited fiscal expansion to cushion the negative shock from the turmoil in international financial markets. However, faced with a possible severe disruption of external financing flows, some countries may need to respond by tightening policies promptly to maintain confidence.

Beyond the immediate short-term macroeconomic challenges, policies need to remain focused on strengthening macroeconomic policy frameworks, promoting sound financial deepening, and supporting the growth potential of the private sector:

- All countries in the region need to continue elaborating and adopting fiscal policy

frameworks tailored to addressing specific issues in their fiscal outlook, most notably the efficient and sustainable use of oil revenues in oil-exporting countries—particularly in countries where reserves are dwindling (Syria and Yemen)—and high public debt in emerging market economies and some low-income countries (Djibouti, the Kyrgyz Republic, Mauritania, and Sudan). A medium-term framework can help link annual budgets to longer-term policies and fiscal sustainability objectives, and enhance risk analysis. These frameworks are especially important in countries where major fiscal reforms—such as introducing a value-added tax or phasing out large energy subsidies—are needed to underpin a medium-term fiscal adjustment strategy, or where large investment projects may entail significant recurrent budgetary outlays over the medium term.

- The experience with previous oil booms highlights the importance of sound institutions and public financial management systems for oil-producing countries. These countries face the challenge of balancing the need to create jobs and improve living standards for the current generation of citizens while at the same time preserve an equitable share of the oil wealth for future generations. To this end, many countries have established oil funds, commonly referred to as Sovereign Wealth Funds (SWFs). While the nature of these funds differs across countries, their main objective is to facilitate the saving of the proceeds from renewable resources and help reduce boom-and-bust cycles resulting from changes in oil prices. The role of SWFs has gained attention recently, and led to a call for greater transparency in their management to help avert protectionist tendencies in recipient countries (Box 9). The IMF, in collaboration with the SWFs, has been charged with facilitating the design of a voluntary code of best practices.

Box 9. Sovereign Wealth Funds in the Spotlight

With the rapid increase in the number and size of SWFs, questions are being raised about their transparency and impact on global financial stability.

What Are SWFs?

There is no single definition of an SWF, but they can be described as special-purpose government funds that hold and manage assets of the economy for long-term objectives. The funds in the MCD region typically invest abroad the accumulated savings from hydrocarbon revenue. According to the IMF's October 2007 *Global Financial Stability Report*, SWFs can be broadly distinguished based on their main objective:

- *stabilization funds*, designed to insulate the budget and the economy against volatile commodity (usually oil) price changes;
- *savings funds for future generations*, which aim to convert nonrenewable nonfinancial assets into a more diversified portfolio of assets yielding higher returns;
- *reserve investment funds*, which are established to increase the return on international reserves;
- *development funds*, for funding socioeconomic projects or promoting industrial policies that might raise a country's potential output growth; and
- *contingent pension reserve funds*, for covering contingent unspecified pension liabilities on the government's balance sheet.

SWFs help avert boom-bust cycles in their home countries and facilitate the saving and transfer across generations of proceeds from fiscal surpluses. Compared with central bank–managed reserve assets, SWFs allow for greater portfolio diversification and focus more on generating higher returns. Although SWFs have existed for a long time (e.g., the Kuwaiti Reserve Fund for Future Generations was started in 1953), they have grown in number and size owing to high oil prices, financial globalization, and continued imbalances in the global financial system that have facilitated rapid accumulation of foreign assets by some countries. The IMF estimates that SWFs will rise from US\$2–US\$3 trillion today to about US\$6–US\$10 trillion within five years, with the GCC countries holding about one-half of these assets (Table B9.1). While SWFs are sizable when compared with global financial assets, they are relatively small as a share of world financial and real assets—a more appropriate comparison given that SWFs invest in both financial and real assets.

SWFs are widely perceived to have played a stabilizing role in markets, possibly because their long investment horizons are likely reflected in longer investment holding periods. This sentiment has been reinforced by recent capital injections (over US\$40 billion since November 2007) by SWFs into European and U.S. banks in the wake of the U.S. subprime crisis. Nevertheless, the recent substantial increase in SWF assets has raised concerns about their lack of transparency, the expanded role of governments in international markets and industries, and the potential of SWFs for carrying out transactions based on noncommercial motives. In contrast, countries with SWFs are concerned about protectionist restrictions on their investments, which could hamper the international flow of capital.

Box 9 (concluded)**Table B9.1. Estimates of Assets Under Management for MCD SWFs**

(In billions of U.S. dollars; as of February 2008)

Name of Fund		Assets
GCC		
Kuwait	Reserve Fund for Future Generations/ Government Reserve Fund	213
Oman	State General Reserve Fund	10
Qatar	State Reserve Fund/Stabilization Fund	30–50
Saudi Arabia	No designated name	305
U.A.E.	Abu Dhabi Investment Authority	500–900
Non-GCC		
Azerbaijan	State Oil Fund	2.5
Iran, I. R. of	Foreign Exchange Reserve Fund	9
Kazakhstan	National Fund	21
Libya	Libyan Investment Authority	50
Total		1,141–1,561

Sources: Brad Setser's Report; Deutsche Bank; Morgan Stanley; and Petersen IIE.

Toward a Voluntary Set of Best Practices

Recognizing the growing importance of SWFs and the role of the IMF in monitoring the health of its member countries' economies and the global financial system, the International Monetary and Financial Committee—the IMF's governance body—called on the IMF in October 2007 to collaborate with SWFs and other stakeholders in developing a voluntary set of best practices in the management of SWFs.

To that end, the IMF organized a roundtable of sovereign asset and reserve managers in November 2007 to enhance the understanding of SWFs. The IMF is also undertaking a survey to help identify SWFs' institutional frameworks, investment objectives, and risk management practices, and plans to coordinate the work of an international working group to help develop best practices for current and planned SWFs. The objective will be to formulate best practices that are fair to both investing and recipient countries, cost-effective in terms of resources for monitoring compliance, and capable of facilitating open international capital flows and cross-border investments. ■

- Many countries in the region continue to rely on price subsidies on food and energy products to increase their affordability to low-income households. Price subsidies are not, however, an efficient way to achieve this social objective because they distort resource allocation and benefit the rich more than the poor. Given that high food and fuel prices are likely to persist, phasing out price subsidies will be essential for maintaining fiscal sustainability, enhancing the efficiency of fiscal spending, and improving equity. The adverse social effects of this reform on the poor should be mitigated by establishing social safety nets that better target the poor, including through direct income or cash transfers. The pace of price adjustment should strike the right balance between minimizing the risk of destabilizing inflation expectations associated with a sharp increase in prices versus the adjustment fatigue resulting from a lengthy drawn-out series of price adjustments. An effective communication strategy—that stresses the inequitable nature of the subsidies, their fiscal costs, and the trade-offs in the use of public funds—is also important for the success of the reform.
- For countries where greater exchange rate flexibility is desirable over the medium term, further work is needed to lay the foundation for an independent monetary policy. This would include assigning a mandate to the central bank to maintain low and stable inflation, and developing market-based instruments of monetary control. It would also require strengthening the research and forecasting capabilities of central banks to develop their understanding of the monetary transmission mechanism (Morocco and Tunisia).
- Despite the difficult challenges ahead, GCC countries need to work closely and speedily on keeping the agenda of the proposed monetary union on track, including reaching consensus among all parties on the appropriate common exchange rate regime to be adopted in this context.
- Strengthening the banking system remains a top priority. A healthy and dynamic financial system is key to sustained higher growth and lower unemployment in the region. It is also a prerequisite for a country to successfully integrate into the world economy. Notwithstanding the significant progress achieved over the past decade, important challenges remain. The banking sectors of some countries are still saddled with relatively high nonperforming loans. Dealing with these large stocks of nonperforming loans will be essential to lower the cost of borrowing and increase the availability of new credit. In this context, strengthening banking regulation and supervision will be important, particularly in countries experiencing fast credit growth. Rapid credit expansion can undermine the quality of banks' portfolios if the capacity of these banks to assess the creditworthiness of borrowers fails to keep pace with the growth of their lending. Moreover, banks' exposure to exchange rate risk needs to be monitored carefully in cases (like Kazakhstan) where banks rely heavily on foreign borrowing to fund their domestic lending. Fortunately, while nonperforming loans have started to rise in Kazakhstan, other indicators of financial soundness remain broadly satisfactory. For most countries, competition and efficiency would be enhanced by restructuring and privatizing inefficient state banks, and by developing local debt markets.
- Given the recent rapid rise in house prices in many countries in the region, policymakers should closely monitor developments in this area and assess vulnerability to a property price correction (Box 10). The current turmoil in international financial markets triggered by massive defaults on subprime mortgages in the United States has revived the debate over how monetary policy should

respond to housing price developments. Housing price corrections could slow economic activity considerably by dampening both residential investment and private consumption, particularly if homes are increasingly used as collateral for household borrowing. The recent experience in developed countries seems to support the case for giving greater weight to asset price movements when gauging a country's monetary policy stance.

- The private sector is essential for the expansion and diversification of the production and export base of MCD economies, and for the creation of jobs for the rapidly growing labor force. Among the

key policies to promote growth of the private sector are initiatives to improve the investment climate and lower the cost of doing business, including by reducing barriers to trade and pervasive government controls and regulations, enhancing the transparency of the legal and administrative systems, improving labor market flexibility, and reforming the educational system and promoting training to reduce the mismatch between the skill sets of workers seeking a job and those required by potential employers. The recent initiative to pursue this reform agenda in the context of the regional integration in the Maghreb countries is a good example for other MCD countries to follow. ■

Box 10. Real Estate Prices in the MCD Region

Although lack of data hampers analysis, there is some evidence of significant price inflation in the region's real estate markets. However, differences remain over whether a property price bubble exists in selected economies or prices have simply responded to economic fundamentals.

A number of factors may have contributed to price inflation in the real estate market. In some hydrocarbon-rich countries, particularly in the GCC countries, the housing market boom has been spurred by rapid population growth driven by a large inflow of expatriates, the opening up of real estate markets to foreign investors, a sharp increase in the price of imported raw materials, and expansionary fiscal and monetary policies. Rising oil prices have also benefited non-oil countries through direct investment by oil exporters, particularly in real estate (Egypt, Morocco, Pakistan, and Tunisia) or rising remittances flows, which are typically used to acquire real estate in the home country. In Kazakhstan, the significant increase in property prices has been driven mainly by rapid credit growth. Migration in Egypt and Jordan as a result of civil unrest in neighboring countries, and a lack of alternative investment vehicles in Iran may have also contributed to the rapid rise in real estate prices.

While data availability is scarce in general, there is some information available for specific markets¹

(Table B10.1). In Saudi Arabia, property prices are still recovering from the downturn in 2006, while other GCC countries have seen very large valuation increases,

leading to a GCC-wide rise of about 25 percent a year. In Bahrain, for example, a relaxation of acquisition constraints on foreigners led to an influx of Saudi nationals who prefer to commute.

Moreover, the concentrated ownership of land by the state in GCC countries limits the private sector's ability to increase supply to meet housing shortages.

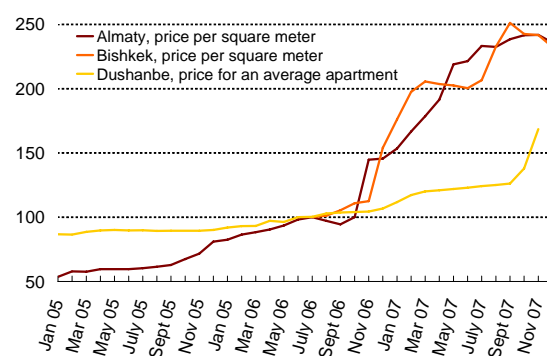
In Central Asia, house prices have increased rapidly in several major cities over the past two years, including in Almaty, Bishkek, and, more recently, Dushanbe (Figure B10.1). In Kazakhstan, the boom came to an abrupt halt as banks lost easy access to foreign borrowing when global liquidity conditions tightened. The housing boom was fueled mainly by foreign-financed commercial bank lending, putting the Kazakhstani banking system under strain.

Table B10.1. Housing Price Developments in the GCC countries
(Average, 2005 = 100)

	Bahrain	GCC	Kuwait	Oman	Qatar	Saudi Arabia	U.A.E.
October 2007	171.9	140.0	131.7	336.4	251.0	77.6	143.1
February 2008	213.0	158.8	142.5	438.1	288.3	85.9	147.3

Source: www.mazayaindex.com.

Figure B10.1. Property Price Indices in Central Asia



Sources: Data provided by country authorities; and www.proinvest.kg.

¹Data availability is somewhat better for rents because these are generally included in the CPI. However, CPI data are often not available at a disaggregated level. Moreover, rental price indices can be heavily influenced by administered prices—e.g., public housing subsidies and rent controls—and therefore may not reflect market prices.

Box 10 *(concluded)*

The sparse data available show that affordability of housing varies widely across the region (Table B10.2). In the Maghreb, high property prices (relative to income) conceivably restrict access to housing, especially for lower income groups. Consequently, some countries in the region, such as Morocco and Tunisia, have public housing programs and subsidized mortgages, targeted to specific income or age groups, to increase home ownership. However, the affordability index should be interpreted with caution given that it is based on aggregate data. A more revealing analysis would require the affordability index for different levels of income distribution.

The scarcity of data does not allow conclusive inference as to whether property prices are out of line with economic fundamentals or whether recent reforms in the real estate market have allowed real estate prices to catch up with economic developments. Given the importance of the real estate market for growth and financial stability, greater attention needs to be paid to the collection and analysis of adequate statistical information on real estate markets. ■

Table B10.2. Affordability of Apartments in Selected Economies¹
(Price per square meter in percent of annual per capita income)

MCD						Other Emerging Markets		
Egypt	Jordan	Lebanon	Morocco	Tunisia	U.A.E.	Korea	Mexico	Poland
15.6	39.6	36.0	64.9	62.4	17.6	17.9	8.8	27.3

Sources: Price per square meter from www.globalpropertyguide.com; and per capita income from IMF, *World Economic Outlook*.

¹The affordability index shows the price per square meter of residential apartments (in U.S. dollars) for sale in prime locations in the administrative or financial capital relative to per capita income (converted at purchasing-power-parity-adjusted exchange rates). The property prices were collected in 2007, except for Korea, Mexico, and Tunisia (all 2005).

Statistical Appendix



Photo on previous page:
Jameh Mosque—Iran
By Michele Falzone/JAI/Corbis

Data and Conventions

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

The following statistical appendix tables contain data for 30 of the MCD countries. Somalia and the West Bank and Gaza are not included because of limited data availability. Afghanistan, Iraq, and Turkmenistan are included in the tables, but excluded from the country grouping averages in all the tables except Tables 2, 3, 5, 14, 15, 16, and 19. Data revisions reflect changes in methodology and/or revisions provided by country authorities.

The data relate to the calendar year, with the following exceptions: (1) for Qatar, fiscal data are on a fiscal year (April/March) basis; and (2) for Afghanistan, Egypt, Iran, and Pakistan, all macroeconomic accounts data are on a fiscal year basis. For Egypt and Pakistan, the data for each year (e.g., 2004) refer to the fiscal year (July/June) ending in June of that year (e.g., June 2004). For Afghanistan and Iran, data for each year refer to the fiscal year (March 21/March 20) starting in March of that year, except Table 5, which contains data on a calendar year basis.

In Tables 4, 10, and 11, "oil" includes gas, which is also an important resource in several countries.

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

- Country group composites for exchange rates and the growth rates of monetary aggregates (Tables 7 and 18) 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, 4, 6, and 8–13), 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 17 and 20) 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, 3, 5, 14–16, and 19 are sums of the individual country data.

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

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

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

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

Table 1. Real GDP Growth

(Annual change; in percent)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	3.9	6.7	6.2	6.2	6.6	6.4	6.3
Oil exporters	3.8	7.9	6.4	6.6	6.4	6.3	6.2
Algeria	3.6	6.9	5.2	5.1	2.0	4.8	4.9
Azerbaijan	7.7	10.5	10.4	24.3	30.5	23.4	18.6
Bahrain	4.8	7.2	5.6	7.9	6.5	6.6	6.2
Iran	4.2	7.2	5.1	4.7	5.8	5.8	5.8
Iraq	...	...	46.5	-0.7	6.2	2.8	6.6
Kazakhstan	6.8	9.3	9.6	9.7	10.7	8.5	5.0
Kuwait	8.2	17.3	10.7	11.4	6.3	4.6	6.0
Libya	2.2	5.9	5.0	6.3	5.2	6.8	8.8
Oman	3.6	2.0	5.3	6.0	6.8	6.4	7.4
Qatar	7.0	6.3	17.7	9.2	10.3	14.2	14.1
Saudi Arabia	1.5	7.7	5.3	6.1	4.3	4.1	4.8
Syria	2.9	1.1	2.8	3.3	4.4	3.9	4.0
Turkmenistan	15.6	17.1	14.7	12.9	11.1	11.6	9.5
United Arab Emirates	4.0	11.9	9.7	8.2	9.4	7.4	6.3
Low-income countries	4.8	6.4	6.2	6.7	8.1	8.7	7.1
Afghanistan	...	15.1	9.4	16.4	6.1	12.4	8.6
Armenia	7.9	14.0	10.5	14.0	13.3	13.7	10.0
Djibouti	1.6	3.2	3.0	3.2	4.8	5.2	6.5
Georgia	3.6	11.1	5.9	9.6	9.4	12.4	9.0
Kyrgyz Republic	3.3	7.0	7.0	-0.2	3.1	8.2	7.0
Mauritania	3.1	5.6	5.2	5.4	11.4	0.9	6.1
Sudan	5.5	7.1	5.1	6.3	11.3	10.5	7.6
Tajikistan	7.3	10.2	10.6	6.7	7.0	7.8	4.1
Uzbekistan	4.1	4.2	7.7	7.0	7.3	9.5	8.0
Yemen	4.7	3.7	4.0	5.6	3.2	3.1	4.1
Emerging markets	4.0	4.4	5.8	5.3	6.6	6.0	6.3
Egypt	5.1	3.2	4.1	4.5	6.8	7.1	7.0
Jordan	4.3	4.2	8.6	7.1	6.3	5.7	5.5
Lebanon	2.3	4.1	7.5	1.1	0.0	4.0	3.0
Morocco	3.3	6.1	5.2	2.4	8.0	2.2	6.5
Pakistan	3.1	4.8	7.4	7.7	6.9	6.4	6.0
Tunisia	4.5	5.6	6.0	4.0	5.5	6.3	5.5
<i>Memorandum</i>							
CCA	6.1	8.7	9.1	11.0	13.1	11.9	8.8
MENA	3.9	6.8	5.8	5.5	5.8	5.7	6.0
<i>Of which</i>							
GCC	3.2	9.1	7.5	7.3	6.0	5.6	6.1
Maghreb	3.5	6.3	5.3	4.5	4.6	4.6	6.0

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

Table 2. Nominal GDP

(In billions of U.S. dollars)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	846.0	1,030.4	1,237.8	1,501.6	1,780.8	2,100.3	2,584.5
Oil exporters	551.1	704.4	875.3	1,096.4	1,310.3	1,550.0	1,948.6
Algeria	52.7	67.8	85.1	102.7	114.8	131.2	150.8
Azerbaijan	5.2	7.3	8.7	13.2	20.9	31.3	49.0
Bahrain	7.4	9.7	11.2	13.5	15.8	17.1	20.9
Iran	106.2	134.0	161.3	188.0	222.1	294.1	364.5
Iraq	...	...	25.8	31.4	49.5	63.0	82.1
Kazakhstan	20.7	30.9	43.2	57.1	81.0	103.8	133.7
Kuwait	33.4	47.8	59.4	80.8	98.7	111.3	145.1
Libya	30.1	24.0	30.5	41.7	49.7	57.1	78.9
Oman	18.0	21.8	24.8	30.9	35.7	40.1	50.5
Qatar	15.5	23.5	31.7	42.5	52.7	67.8	98.3
Saudi Arabia	173.6	214.9	250.7	315.8	349.1	376.0	464.4
Syria	19.3	22.7	25.0	28.6	34.9	37.8	41.9
Turkmenistan	5.5	11.4	14.2	17.2	21.8	26.9	28.5
United Arab Emirates	63.6	88.6	103.8	133.0	163.3	192.6	239.9
Low-income countries	45.2	56.3	68.1	83.6	102.9	129.5	155.5
Afghanistan	4.0	4.4	5.4	6.5	7.0	8.8	11.2
Armenia	2.0	2.8	3.6	4.9	6.4	9.2	11.8
Djibouti	0.6	0.6	0.7	0.7	0.8	0.8	1.0
Georgia	3.2	4.0	5.1	6.4	7.8	10.3	13.5
Kyrgyz Republic	1.5	1.9	2.2	2.5	2.8	3.7	4.8
Mauritania	1.2	1.3	1.5	1.9	2.7	2.8	3.0
Sudan	12.6	17.8	21.7	27.4	36.4	46.2	53.9
Tajikistan	1.1	1.6	2.1	2.3	2.8	3.7	4.1
Uzbekistan	13.4	10.1	12.0	14.3	17.0	22.3	26.3
Yemen	8.8	11.8	13.9	16.8	19.1	21.7	25.9
Emerging markets	249.8	269.7	294.4	321.5	367.6	420.8	480.3
Egypt	91.4	81.4	78.8	89.8	107.4	127.9	151.3
Jordan	8.6	10.2	11.4	12.6	14.1	16.0	18.5
Lebanon	17.3	19.8	21.5	21.6	22.8	24.6	26.8
Morocco	39.0	49.8	56.4	59.0	65.4	73.4	84.4
Pakistan	73.2	83.5	98.1	109.6	127.0	143.8	160.2
Tunisia	20.2	25.0	28.3	29.0	31.0	35.0	39.2
<i>Memorandum</i>							
CCA	52.7	70.0	91.0	117.9	160.6	211.3	271.8
MENA	720.1	876.9	1,048.7	1,274.0	1,493.2	1,745.2	2,152.5
<i>Of which</i>							
GCC	311.4	406.3	481.6	616.4	715.4	804.9	1,019.2
Maghreb	143.1	167.9	201.8	234.3	263.6	299.5	356.3

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

Table 3. GDP at Purchasing-Power-Parity Prices

(In billions of U.S. dollars)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	2,159.4	2,655.8	2,885.2	3,245.3	3,564.5	3,888.9	4,216.8
Oil exporters	1,355.2	1,683.0	1,836.5	2,109.1	2,312.0	2,518.1	2,728.3
Algeria	138.1	167.4	181.5	198.9	209.3	224.7	240.4
Azerbaijan	19.4	26.1	29.5	38.4	51.7	65.5	79.2
Bahrain	12.5	16.5	18.1	20.4	22.4	24.5	26.5
Iran	436.4	548.6	591.6	634.6	692.9	753.0	812.9
Iraq	...	n.a.	n.a.	82.6	90.4	95.4	103.8
Kazakhstan	74.5	103.7	116.6	131.8	150.5	167.6	179.5
Kuwait	64.0	90.7	99.1	110.5	121.2	130.1	140.7
Libya	44.7	53.3	57.3	62.9	68.2	74.8	83.0
Oman	36.7	43.2	46.8	51.2	56.4	61.6	67.5
Qatar	33.1	41.6	51.6	56.3	64.1	75.2	87.6
Saudi Arabia	348.1	406.4	439.0	491.0	528.2	564.6	603.5
Syria	57.1	65.7	70.9	75.8	81.7	87.1	92.4
Turkmenistan	9.2	15.3	18.1	20.4	23.3	26.7	29.8
United Arab Emirates	81.4	104.7	116.4	134.5	151.7	167.3	181.4
Low-income countries	148.6	194.5	208.2	228.8	254.5	284.4	310.9
Afghanistan	11.2	13.1	13.7	15.7	17.2	19.8	22.0
Armenia	6.5	9.4	10.7	12.6	14.7	17.2	19.2
Djibouti	1.2	1.3	1.4	1.5	1.6	1.7	1.9
Georgia	10.1	12.9	14.0	15.7	17.8	20.5	22.8
Kyrgyz Republic	6.5	7.9	8.6	8.9	9.5	10.5	11.5
Mauritania	3.6	4.3	4.6	5.0	5.7	5.9	6.4
Sudan	41.3	52.5	56.7	62.0	71.1	80.7	88.5
Tajikistan	5.7	7.8	8.8	9.7	10.7	11.8	12.5
Uzbekistan	35.4	42.3	46.8	51.5	57.1	64.1	70.7
Yemen	36.0	43.0	42.9	46.2	49.2	52.0	55.3
Emerging markets	655.7	778.2	840.5	907.5	998.0	1,086.4	1,177.6
Egypt	245.2	289.6	309.7	333.3	367.4	404.0	440.8
Jordan	15.8	19.3	21.5	23.5	25.8	28.0	30.1
Lebanon	28.6	33.4	36.8	38.4	39.6	42.3	44.4
Morocco	78.3	95.2	100.9	107.1	119.4	125.2	136.1
Pakistan	242.2	286.0	311.7	340.3	375.3	410.0	443.3
Tunisia	45.5	54.7	59.9	64.8	70.5	77.0	82.9
<i>Memorandum</i>							
CCA	167.3	225.3	253.0	288.9	335.1	383.9	425.3
MENA	1,749.9	2,144.4	2,320.4	2,616.1	2,854.0	3,095.0	3,348.2
<i>Of which</i>							
GCC	575.8	703.1	771.0	863.9	944.1	1,023.3	1,107.3
Maghreb	310.2	374.8	404.2	438.7	473.1	507.7	548.8

Source: IMF, *World Economic Outlook*.

Table 4. Oil and Non-Oil Real GDP Growth for Oil Exporters

(Annual change; in percent)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Non-Oil GDP							
Oil exporters	4.5	6.7	7.1	6.8	7.3	7.3	6.7
Algeria	4.0	5.9	6.2	4.7	5.6	6.0	6.5
Azerbaijan	4.2	15.3	13.8	8.4	11.9	11.5	9.0
Bahrain	4.2	9.1	10.7	11.6	8.0	7.7	7.4
Iran	4.7	7.0	5.4	5.3	6.2	6.3	6.3
Iraq	...	...	14.9	12.0	7.5	0.0	3.0
Kazakhstan	5.2	8.8	8.4	11.5	11.9	9.0	4.2
Kuwait	7.5	15.3	12.9	11.4	9.0	9.8	9.2
Libya	3.0	2.6	4.2	5.6	6.0	7.4	8.1
Oman	4.5	6.5	8.5	7.3	8.4	9.0	8.5
Qatar	3.7	7.3	24.6	13.1	10.0	10.0	10.0
Saudi Arabia	3.2	3.7	4.6	5.2	6.3	6.6	6.4
Syria	5.6	2.5	5.0	6.0	6.5	5.8	5.3
Turkmenistan	17.6	17.8	16.1	16.1	13.0	12.8	11.0
United Arab Emirates	7.0	11.2	12.6	10.8	10.4	8.7	7.3
<i>Memorandum</i>							
GCC	4.4	6.8	8.6	7.7	7.7	7.8	7.3
Oil GDP							
Oil exporters	2.1	10.9	4.7	4.6	3.3	2.2	3.7
Algeria	3.4	8.8	3.3	5.8	-2.5	-1.0	1.1
Azerbaijan	20.0	0.6	2.5	65.4	62.0	37.3	27.7
Bahrain	7.3	1.2	-11.9	-8.8	-1.0	0.3	-2.0
Iran	0.7	8.4	2.9	-0.4	2.7	1.9	2.1
Iraq	...	...	74.2	-8.1	5.3	4.8	9.0
Kazakhstan	18.5	11.6	15.5	1.7	5.0	5.8	9.1
Kuwait	10.6	19.8	8.1	11.4	2.9	-2.3	1.3
Libya	-0.5	17.7	7.4	8.4	2.8	4.8	11.0
Oman	2.1	-6.8	-1.8	2.9	2.6	-0.8	4.3
Qatar	10.1	5.6	12.5	6.0	10.7	18.0	17.6
Saudi Arabia	-1.8	17.2	6.7	7.8	0.2	-1.2	1.1
Syria	-4.4	-3.8	-6.1	-8.6	-6.4	-7.3	-4.5
Turkmenistan	22.2	11.3	-1.7	3.2	5.4	7.8	4.2
United Arab Emirates	-1.3	13.6	2.9	1.6	6.5	3.5	3.5
<i>Memorandum</i>							
GCC	0.9	14.4	5.7	6.5	2.4	0.9	2.9

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

Table 5. Crude Oil Production and Exports

(Millions of barrels a day)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Production							
Oil exporters	20.9	23.1	26.2	27.4	27.9	28.4	29.4
Algeria	0.9	1.2	1.3	1.4	1.4	1.4	1.4
Azerbaijan	0.3	0.3	0.3	0.5	0.6	0.8	1.0
Bahrain	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Iran	3.5	3.8	3.8	4.1	4.1	4.2	4.3
Iraq	...	...	2.0	1.9	2.0	2.1	2.2
Kazakhstan	0.5	1.1	1.2	1.3	1.3	1.4	1.5
Kuwait	1.9	2.1	2.3	2.6	2.6	2.6	2.6
Libya	1.4	1.5	1.6	1.7	1.7	1.8	2.0
Oman	0.9	0.8	0.8	0.8	0.7	0.7	0.7
Qatar	0.7	0.7	0.8	0.8	0.8	0.9	0.9
Saudi Arabia	7.8	8.4	8.9	9.4	9.2	9.1	9.2
Syria	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Turkmenistan	0.2	0.2	0.2	0.2	0.2	0.2	0.2
United Arab Emirates	2.1	2.3	2.3	2.4	2.6	2.7	2.8
Exports¹							
Oil exporters	13.9	17.2	19.7	20.6	20.9	20.6	21.2
Algeria	0.5	0.7	0.9	1.0	0.9	0.9	0.9
Azerbaijan	0.2	0.2	0.2	0.4	0.6	0.7	0.9
Bahrain	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Iran	2.1	2.4	2.5	2.6	2.5	2.5	2.5
Iraq	...	...	1.5	1.4	1.4	1.6	1.7
Kazakhstan	0.4	0.9	1.1	1.1	1.1	1.2	1.3
Kuwait	1.1	1.2	1.4	1.7	1.7	1.6	1.6
Libya	1.0	1.2	1.3	1.3	1.3	1.3	1.5
Oman	0.9	0.8	0.7	0.7	0.6	0.6	0.5
Qatar	0.6	0.7	0.7	0.7	0.7	0.8	0.8
Saudi Arabia	5.9	6.5	6.8	7.2	7.2	6.4	6.5
Syria	0.3	0.3	0.2	0.2	0.2	0.2	0.1
Turkmenistan	0.0	0.0	0.0	0.0	0.0	0.0	0.0
United Arab Emirates	1.9	2.1	2.2	2.2	2.4	2.5	2.6

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

¹Excludes exports of refined oil products.

Table 6. Consumer Price Inflation

(Year average; in percent)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	5.5	5.8	6.9	6.4	7.3	9.2	10.7
Oil exporters	5.5	6.7	6.5	6.5	7.0	10.0	12.2
Algeria	2.7	2.6	3.6	1.6	2.5	3.7	4.3
Azerbaijan	-0.6	2.2	6.7	9.7	8.4	16.6	19.6
Bahrain	-0.8	1.7	2.3	2.6	2.2	3.4	3.3
Iran	15.1	16.5	14.8	13.4	11.7	17.2	20.7
Iraq	12.7	35.8	7.8	37.0	53.2	30.8	15.9
Kazakhstan	8.7	6.4	6.9	7.6	8.6	10.8	17.1
Kuwait	1.5	1.0	1.3	4.1	3.1	5.0	6.5
Libya	-3.1	-2.1	-2.2	2.0	3.4	6.7	8.0
Oman	-0.3	0.2	0.7	1.9	3.2	5.5	6.0
Qatar	1.7	2.3	6.8	8.8	11.8	13.8	12.0
Saudi Arabia	-0.7	0.6	0.4	0.6	2.3	4.1	6.2
Syria	-1.1	5.8	4.4	7.2	10.6	7.0	7.0
Turkmenistan	13.7	5.6	5.9	10.7	8.2	6.4	12.0
United Arab Emirates	2.2	3.2	5.0	6.2	9.3	11.0	9.0
Low-income countries	15.0	9.1	8.4	8.9	11.1	10.1	10.3
Afghanistan	-19.6	35.7	12.6	12.7	7.2	8.6	21.3
Armenia	2.5	4.7	7.0	0.6	2.9	4.4	6.8
Djibouti	1.3	2.0	3.1	3.1	3.5	5.0	6.1
Georgia	7.4	4.8	5.7	8.3	9.2	9.2	9.6
Kyrgyz Republic	14.8	3.1	4.1	4.3	5.6	10.2	18.8
Mauritania	5.9	5.3	10.4	12.1	6.2	7.3	7.1
Sudan	10.9	7.7	8.4	8.5	7.2	8.0	8.0
Tajikistan	30.9	16.4	7.2	7.3	10.0	13.2	18.5
Uzbekistan	27.5	11.6	6.6	10.0	14.2	12.3	11.8
Yemen	10.9	10.8	12.5	11.8	18.2	12.5	10.3
Emerging markets	3.2	3.2	7.5	5.5	6.9	7.1	7.4
Egypt	3.1	4.5	11.3	4.9	7.6	8.8	8.8
Jordan	1.6	1.6	3.4	3.5	6.3	5.4	10.9
Lebanon	1.2	1.3	1.7	-0.7	5.6	4.1	5.5
Morocco	1.8	1.2	1.5	1.0	3.3	2.0	2.0
Pakistan	4.2	2.9	7.4	9.1	7.9	8.1	8.0
Tunisia	2.6	2.7	3.6	2.0	4.5	3.1	4.7
<i>Memorandum</i>							
CCA	12.5	7.0	6.6	7.9	9.3	11.8	15.8
MENA	5.0	6.1	6.9	5.9	7.0	9.0	10.4
<i>Of which</i>							
GCC	0.1	1.1	1.7	2.6	4.2	6.1	7.1
Maghreb	1.6	1.6	2.3	1.7	3.2	3.7	4.4

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

Table 7. Broad Money Growth

(Annual change; in percent)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	14.4	14.2	20.1	20.4	24.6	24.7	20.8
Oil exporters	15.0	13.1	21.8	21.6	27.7	27.1	22.7
Algeria	22.5	15.6	11.5	11.1	18.7	24.4	22.9
Azerbaijan	14.7	29.8	47.5	22.1	86.4	72.4	70.0
Bahrain	10.1	6.4	4.1	22.0	14.9	34.0	21.8
Iran	26.9	24.6	31.0	33.7	38.4	40.0	41.5
Iraq	...	...	...	...	34.6	56.1	60.0
Kazakhstan	38.6	27.0	69.8	25.2	78.1	25.5	20.0
Kuwait	4.9	7.8	12.1	12.3	21.7	19.3	14.3
Libya	7.9	8.1	9.2	29.2	17.3	40.5	30.2
Oman	6.3	2.6	4.3	20.9	24.9	31.9	14.8
Qatar	12.3	4.8	20.8	42.9	39.6	43.3	22.2
Saudi Arabia	7.6	6.9	18.8	11.6	19.3	19.6	12.5
Syria	17.0	7.7	11.1	11.5	7.3	13.3	12.7
Turkmenistan	43.5	40.9	12.7	27.9	55.9	47.2	141.1
United Arab Emirates	12.4	16.1	23.2	33.8	23.2	20.8	18.7
Low-income countries	28.3	25.8	31.7	34.6	32.3	26.5	24.8
Afghanistan	...	40.9	34.6	12.3	22.0	14.2	20.6
Armenia	25.5	10.4	22.3	27.8	32.9	42.3	32.0
Djibouti	6.6	17.8	13.9	11.3	10.2	9.6	13.1
Georgia	19.0	22.8	42.6	26.4	39.3	49.6	37.2
Kyrgyz Republic	21.7	33.5	32.0	9.9	51.6	33.3	28.7
Mauritania	17.9	25.5	13.5	14.6	15.7	18.9	11.8
Sudan	28.3	30.3	32.1	44.7	27.4	9.6	20.0
Tajikistan	49.5	42.0	51.6	30.2	63.4	78.8	19.2
Uzbekistan	38.2	27.1	47.8	54.3	36.8	46.1	40.0
Yemen	17.5	20.0	15.0	14.4	28.8	17.4	14.0
Emerging markets	10.6	14.8	13.8	14.6	14.0	16.6	13.4
Egypt	11.2	16.9	13.2	13.6	13.5	17.1	18.3
Jordan	8.6	12.4	11.7	17.0	14.1	10.6	8.0
Lebanon ¹	10.6	15.5	12.3	3.5	6.4	11.2	9.0
Morocco	9.0	8.6	7.7	14.0	17.2	16.0	14.0
Pakistan	10.9	18.0	19.6	19.3	14.9	19.3	11.4
Tunisia	10.9	6.3	10.3	11.0	11.4	12.5	9.4
<i>Memorandum</i>							
CCA	34.0	26.9	56.8	29.8	66.9	38.3	32.0
MENA	13.4	13.1	17.8	19.9	22.3	24.0	20.5
<i>Of which</i>							
GCC	8.4	8.6	17.9	19.1	22.0	22.4	15.2
Maghreb	13.8	11.0	9.9	14.6	17.1	23.5	20.3

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

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

Table 8. Central Government Fiscal Balance

(In percent of GDP)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	-1.4	0.6	2.9	5.4	6.1	5.5	7.0
Oil exporters	0.2	3.5	6.7	11.1	12.0	11.1	13.5
Algeria	1.5	7.8	6.9	11.9	13.6	11.8	13.3
Azerbaijan	-2.1	-0.8	1.0	2.6	-0.2	2.4	29.1
Bahrain	0.9	1.8	4.6	7.6	4.7	3.6	7.9
Iran	0.1	1.3	1.7	1.1	-0.9	1.8	0.0
Iraq ¹	...	...	-41.3	10.9	11.0	13.3	8.2
Kazakhstan ¹	-1.9	2.7	2.5	5.8	7.2	5.2	4.7
Kuwait	20.9	17.4	22.3	33.9	30.3	39.2	27.2
Libya	4.2	14.8	17.4	30.0	39.0	33.9	34.3
Oman	3.5	4.7	4.5	12.1	14.2	13.7	16.1
Qatar	2.3	6.4	16.4	9.2	9.7	14.5	18.8
Saudi Arabia	-4.3	1.2	10.0	18.4	21.4	12.8	22.1
Syria ¹	-1.1	-2.6	-4.2	-4.4	-5.7	-4.6	-4.8
Turkmenistan ¹	0.8	-1.3	0.4	0.8	5.1	7.4	9.4
United Arab Emirates ²	-0.8	2.6	10.5	20.3	28.8	30.5	34.0
Low-income countries	-1.7	-1.5	-0.4	-1.4	0.7	-1.8	-1.8
Afghanistan	-0.1	-3.1	-1.4	1.0	-3.1	-3.3	-2.6
Armenia	-4.6	-1.1	-1.7	-2.6	-1.9	-1.8	-1.8
Djibouti	-1.8	-2.3	-1.9	0.2	-2.4	-3.5	-2.6
Georgia ¹	-3.2	-1.3	-0.2	-2.4	-2.8	-4.7	-1.5
Kyrgyz Republic ¹	-9.2	-4.7	-4.4	-3.7	-2.1	-0.4	-1.5
Mauritania ³	-5.2	-11.8	-4.8	-7.1	35.7	-2.8	-4.2
Sudan	0.0	0.7	1.5	-1.8	-4.3	-3.2	-3.5
Tajikistan ¹	-4.0	-1.8	-2.4	-2.9	1.7	-6.0	-8.1
Uzbekistan ¹	-2.5	0.1	0.6	1.2	5.2	3.9	2.2
Yemen ¹	0.1	-4.2	-2.2	-1.8	1.2	-4.8	-2.5
Emerging markets	-4.6	-5.2	-4.8	-5.5	-5.7	-5.1	-5.3
Egypt ¹	-3.2	-9.0	-8.3	-8.4	-9.2	-7.7	-6.9
Jordan	-4.3	0.2	-1.7	-5.0	-3.8	-6.1	-5.6
Lebanon	-17.4	-13.3	-8.6	-8.4	-11.1	-11.0	-9.6
Morocco	-4.1	-4.3	-3.8	-4.7	-1.4	0.2	-1.7
Pakistan ¹	-4.4	-1.3	-1.8	-3.0	-3.7	-4.0	-4.8
Tunisia	-3.4	-3.2	-2.6	-3.0	-2.8	-2.9	-2.7
<i>Memorandum</i>							
CCA	-2.6	0.9	1.1	2.9	4.1	3.0	7.9
MENA	-0.9	0.8	3.7	6.9	7.6	7.1	8.5
<i>Of which</i>							
GCC	0.0	4.0	11.7	19.5	22.1	19.0	23.7
Maghreb	0.2	4.4	4.5	8.5	11.7	10.2	10.5

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

¹General government.²Consolidated accounts of the federal government and the Abu Dhabi, Dubai, and Sharjah emirates.³Includes oil revenue transferred to the oil fund.

Table 9. Central Government Total Revenue Excluding Grants

(In percent of GDP)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	26.4	28.2	29.9	33.1	34.7	33.8	35.6
Oil exporters	29.4	32.2	34.8	39.5	41.1	39.6	42.7
Algeria	33.1	37.1	36.1	40.9	43.0	42.4	44.4
Azerbaijan	21.0	26.7	26.8	25.0	28.0	29.6	55.1
Bahrain	28.8	30.7	30.3	32.2	30.4	32.4	32.9
Iran	20.9	24.1	24.5	29.7	28.9	27.3	27.5
Iraq ¹	...	...	70.4	79.5	67.8	69.2	74.5
Kazakhstan ¹	20.9	25.4	24.6	28.1	27.5	29.6	28.8
Kuwait	64.0	54.7	56.8	62.2	63.1	73.1	68.7
Libya	40.9	53.9	58.5	68.6	72.1	74.2	79.9
Oman	42.7	45.2	45.1	47.9	50.3	46.2	49.1
Qatar	38.3	35.9	47.7	42.0	44.4	49.2	44.5
Saudi Arabia	30.0	34.5	42.2	48.0	51.9	44.3	53.2
Syria ¹	27.1	28.8	27.2	24.0	21.9	21.8	21.7
Turkmenistan ¹	22.1	18.0	19.3	20.5	19.8	19.9	23.0
United Arab Emirates ²	35.0	30.7	35.4	41.7	50.5	51.6	53.5
Low-income countries	23.1	24.1	25.4	26.5	27.6	26.6	27.3
Afghanistan	3.3	4.7	5.0	6.4	8.2	7.6	8.0
Armenia	16.1	14.6	14.9	15.3	15.3	17.3	16.9
Djibouti	23.9	28.0	28.8	30.9	31.2	31.7	29.1
Georgia ^{1,3}	15.5	18.6	24.2	22.5	24.8	27.4	27.5
Kyrgyz Republic ¹	20.0	21.7	22.3	23.7	25.6	28.5	28.2
Mauritania ⁴	22.3	30.7	29.7	24.5	29.4	25.1	26.0
Sudan	9.5	16.0	19.7	22.1	19.5	19.0	19.7
Tajikistan ¹	14.1	17.0	17.3	19.3	18.9	20.5	19.3
Uzbekistan ¹	36.7	32.3	31.4	30.4	34.1	35.0	34.5
Yemen ¹	30.7	30.7	31.3	34.5	38.2	32.0	35.4
Emerging markets	20.3	20.7	20.3	20.3	22.1	22.6	22.0
Egypt ¹	27.4	25.4	24.6	24.3	28.2	27.8	26.6
Jordan	26.1	23.0	25.7	28.2	31.2	31.5	31.4
Lebanon	18.7	22.1	23.1	22.8	21.8	23.4	22.8
Morocco	23.0	21.6	22.5	23.8	25.2	27.9	27.1
Pakistan ¹	13.4	14.8	14.1	13.8	14.2	14.9	14.8
Tunisia	24.1	23.7	23.8	23.6	23.8	24.0	23.3
<i>Memorandum</i>							
CCA	23.7	25.6	25.4	26.7	27.7	29.5	34.1
MENA	28.4	30.3	32.5	36.3	38.2	36.9	38.6
<i>Of which</i>							
GCC	35.7	37.2	43.3	48.1	52.0	49.3	53.8
Maghreb	26.7	30.0	30.4	34.5	36.1	36.9	38.6

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

¹General government.²Consolidated accounts of the federal government and the Abu Dhabi, Dubai, and Sharjah emirates.³Revised for 2002–04 to include extrabudgetary revenue.⁴Includes oil revenue transferred to the oil fund.

Table 10. Oil Exporters: Central Government Non-Oil Fiscal Balance

(In percent of non-oil GDP)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Oil exporters	-27.6	-31.8	-31.6	-36.1	-37.2	-35.7	-40.2
Algeria	-29.8	-27.9	-30.1	-34.7	-36.0	-37.0	-39.9
Azerbaijan	-8.8	-17.3	-13.2	-12.9	-31.3	-32.3	-39.7
Bahrain	-25.4	-32.9	-28.6	-28.8	-28.5	-33.5	-29.8
Iran	-14.5	-20.0	-20.3	-28.0	-28.2	-24.0	-25.7
Iraq ¹	...	...	-277.5	-130.8	-95.3	-100.0	-126.3
Kazakhstan ¹	-4.3	-4.3	-6.5	-7.4	-4.3	-6.0	-10.2
Kuwait	-39.8	-44.5	-42.4	-36.1	-48.9	-41.1	-33.8
Libya	-36.2	-79.1	-92.7	-117.8	-104.2	-127.2	-183.1
Oman	-54.3	-57.8	-62.7	-63.2	-64.9	-53.1	-59.7
Qatar	-48.6	-40.6	-33.0	-47.1	-49.6	-47.9	-31.9
Saudi Arabia	-41.9	-46.7	-45.8	-50.9	-54.0	-53.6	-61.4
Syria ¹	-17.7	-22.0	-19.4	-15.3	-13.4	-10.9	-11.0
Turkmenistan ¹	-10.8	-11.1	-8.8	-13.1	-7.7	-6.8	-13.3
United Arab Emirates ²	-32.3	-29.3	-22.6	-17.1	-15.3	-12.8	-16.6

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

¹General government.²Consolidated accounts of the federal government and the Abu Dhabi, Dubai, and Sharjah emirates.**Table 11. Oil Exporters: Central Government Non-Oil Revenue**

(In percent of non-oil GDP)

	Average 1998–2002	2003	2004	2005	2006	2007	2008
Oil exporters	14.8	13.7	15.3	15.9	17.4	18.4	16.5
Algeria	16.6	17.6	16.9	17.4	18.4	18.2	19.1
Azerbaijan	22.2	22.1	24.3	27.5	29.9	33.3	32.7
Bahrain	12.3	10.5	10.3	9.7	9.0	8.2	7.4
Iran	10.3	9.6	10.1	11.7	12.4	10.8	11.4
Iraq ¹	...	...	3.9	7.5	6.3	6.9	18.1
Kazakhstan ¹	18.7	26.0	25.0	27.0	25.2	28.1	25.2
Kuwait	38.2	22.9	25.7	28.1	34.1	33.7	34.0
Libya	21.5	16.8	21.9	17.0	20.3	24.8	33.2
Oman	14.8	16.6	13.6	13.8	15.3	16.1	16.8
Qatar	25.9	31.2	35.6	34.2	41.4	45.5	49.8
Saudi Arabia	11.5	9.8	12.8	11.2	12.4	15.5	13.5
Syria ¹	18.0	17.8	20.3	22.3	22.8	22.8	23.5
Turkmenistan ¹	16.3	11.7	14.8	13.2	12.6	11.1	10.3
United Arab Emirates ²	16.8	10.6	13.4	16.3	19.3	20.7	16.8

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

¹General government.²Consolidated accounts of the federal government and the Abu Dhabi, Dubai, and Sharjah emirates.

Table 12. Central Government Total Expenditure and Net Lending

(In percent of GDP)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	28.0	28.2	27.3	27.8	28.8	28.5	28.8
Oil exporters	29.3	28.7	28.1	28.4	29.1	28.6	29.2
Algeria ¹	31.7	29.3	29.2	29.0	29.4	30.6	31.1
Azerbaijan ²	23.1	28.5	25.9	22.7	27.4	27.4	26.0
Bahrain	29.1	29.5	26.1	25.5	26.2	29.5	25.5
Iran	20.9	22.8	22.8	28.6	29.8	25.5	27.5
Iraq ³	...	...	120.7	96.5	69.3	58.8	68.0
Kazakhstan ³	23.0	22.6	22.1	22.3	20.2	24.4	24.1
Kuwait	43.1	37.3	34.5	28.3	32.8	33.9	41.5
Libya	36.7	39.1	41.2	38.6	33.1	40.3	45.6
Oman	38.5	39.5	39.8	35.1	35.8	34.7	33.0
Qatar	36.0	29.4	31.3	32.9	34.7	34.7	25.8
Saudi Arabia	34.4	33.3	32.1	29.6	30.5	31.5	31.0
Syria ³	28.1	31.4	31.4	28.4	27.6	26.4	26.5
Turkmenistan ³	21.4	19.4	18.9	19.7	14.6	12.6	13.6
United Arab Emirates ⁴	35.8	28.2	24.9	21.4	21.7	21.0	19.6
Low-income countries	25.4	26.3	26.0	28.3	28.4	28.9	30.0
Afghanistan	8.6	14.5	15.3	16.6	21.5	22.3	21.6
Armenia	22.4	18.9	17.1	18.3	17.7	19.9	19.7
Djibouti	32.3	36.3	37.5	36.8	37.4	39.4	36.7
Georgia ³	19.8	18.7	18.9	24.9	29.2	32.7	29.7
Kyrgyz Republic ³	30.3	27.2	27.7	28.4	28.5	31.3	31.8
Mauritania	30.5	47.2	37.7	33.7	28.3	29.7	37.0
Sudan	9.5	15.3	18.2	23.9	24.3	22.3	24.0
Tajikistan ³	18.2	19.1	20.3	23.0	21.9	27.6	29.9
Uzbekistan ³	39.7	33.4	31.6	29.5	29.2	31.3	32.4
Yemen ³	31.1	35.3	34.2	36.8	37.4	37.0	38.6
Emerging markets	25.6	27.4	26.0	26.3	28.4	28.2	27.7
Egypt ³	31.2	35.2	33.9	33.2	37.7	36.0	33.8
Jordan	34.6	34.5	38.3	38.3	38.3	40.7	40.3
Lebanon	36.3	35.4	31.8	31.2	35.8	35.8	34.1
Morocco ⁵	27.2	26.0	26.5	29.0	27.0	28.1	29.3
Pakistan ³	18.6	18.5	16.4	17.2	18.5	19.2	19.9
Tunisia	27.8	27.1	26.6	26.9	26.6	27.0	26.3
<i>Memorandum</i>							
CCA	26.7	25.2	24.2	23.9	23.8	26.8	26.5
MENA	29.5	29.7	29.1	29.6	30.8	30.0	30.3
<i>Of which</i>							
GCC	35.7	33.1	31.6	28.6	29.9	30.5	30.1
Maghreb	26.6	25.8	26.0	26.1	24.9	26.8	28.2

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

¹Includes special accounts.²Expenditures do not include statistical discrepancy.³General government.⁴Consolidated accounts of the federal government and the Abu Dhabi, Dubai, and Sharjah emirates.⁵Net lending includes balance on special treasury accounts.

Table 13. Total Government Debt

(In percent of GDP)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	66.5	60.7	54.0	45.3	38.7	34.0	30.3
Oil exporters	55.3	43.5	36.3	24.9	19.9	15.7	12.1
Algeria	72.1	43.9	36.6	27.3	23.8	12.2	9.6
Azerbaijan	22.0	21.8	20.2	13.3	10.2	9.1	8.2
Bahrain	28.9	36.9	34.2	28.6	23.3	19.9	17.3
Iran	28.4	26.5	26.3	23.6	19.7	15.0	11.9
Iraq ¹	...	...	504.4	380.7	216.1	175.8	70.7
Kazakhstan ¹	23.7	14.9	11.4	7.1	6.5	5.8	4.8
Kuwait	40.0	23.0	17.3	11.8	8.5	7.0	5.5
Libya	48.6	26.7	1.6	1.1	0.9	0.0	0.0
Oman	27.6	16.5	15.4	9.6	9.1	6.3	4.7
Qatar	60.2	41.6	27.8	19.3	15.0	11.8	8.5
Saudi Arabia	96.7	82.0	65.0	38.9	27.9	23.5	15.9
Syria ¹	133.4	121.0	109.7	56.8	51.3	49.2	46.9
Turkmenistan ¹	41.3	13.6	9.2	5.4	3.3	2.0	1.9
United Arab Emirates ¹	5.5	6.6	8.4	9.3	10.1	10.4	9.8
Low-income countries	101.2	87.1	73.7	62.5	50.1	43.6	38.9
Afghanistan	...	...	...	...	...	...	...
Armenia	41.5	40.9	32.4	24.3	18.7	17.6	16.4
Djibouti	67.7	81.0	77.0	70.4	65.0	62.3	58.2
Georgia ¹	65.7	59.7	45.7	35.7	28.6	20.7	15.7
Kyrgyz Republic ¹	117.4	106.9	96.1	85.1	76.1	56.4	47.0
Mauritania	213.1	259.1	232.7	208.6	107.5	107.8	56.8
Sudan	179.2	149.9	125.0	107.4	85.5	73.2	68.9
Tajikistan ¹	102.8	64.8	43.1	42.3	35.0	34.3	37.6
Uzbekistan ¹	42.9	41.6	35.1	28.2	20.8	15.7	13.0
Yemen ¹	69.1	56.8	52.1	43.8	40.8	41.2	37.0
Emerging markets	82.1	91.5	87.6	86.2	77.6	72.1	68.1
Egypt ¹	82.7	114.8	112.9	112.8	98.8	88.5	82.3
Jordan	102.9	99.6	91.8	84.2	81.5	78.8	61.5
Lebanon	143.8	168.6	167.1	178.4	177.4	170.6	166.5
Morocco	69.6	60.6	58.4	61.7	56.5	54.3	52.4
Pakistan ¹	81.1	74.5	67.8	62.9	57.3	54.6	52.8
Tunisia ¹	60.2	60.5	59.4	58.3	53.9	51.5	50.3
<i>Memorandum</i>							
CCA	37.8	30.3	24.5	18.3	14.6	12.0	10.4
MENA	67.1	61.9	55.1	45.8	38.9	33.8	29.6
<i>Of which</i>							
GCC	69.6	55.7	44.1	27.6	20.4	17.3	12.4
Maghreb	68.0	50.6	42.7	38.6	34.2	27.9	25.5

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

¹General government.

Table 14. Exports of Goods and Services

(In billions of U.S. dollars)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	295.0	427.5	572.8	774.7	935.1	1,080.0	1,383.5
Oil exporters	228.5	339.9	467.4	652.3	792.7	913.1	1,191.1
Algeria	17.3	26.0	34.1	48.8	57.3	62.3	76.1
Azerbaijan	1.9	3.1	4.2	8.3	14.0	22.5	35.4
Bahrain	5.9	7.9	10.2	13.3	15.4	18.9	23.3
Iran	25.4	39.5	49.8	70.8	82.2	98.7	115.5
Iraq	...	...	17.8	20.1	28.8	38.0	51.7
Kazakhstan	9.3	14.9	22.6	30.5	41.6	50.2	63.6
Kuwait	16.3	24.9	33.8	51.7	65.7	75.2	97.8
Libya	11.5	15.1	20.8	31.9	40.2	45.7	67.4
Oman	9.8	12.3	14.1	19.4	22.5	25.2	31.4
Qatar	9.9	14.7	20.7	29.4	38.8	52.2	80.1
Saudi Arabia	66.6	99.1	132.0	187.5	217.1	234.1	312.0
Syria	6.4	8.7	9.8	12.0	12.5	15.0	17.2
Turkmenistan	2.2	3.7	4.2	5.3	7.5	9.3	13.1
United Arab Emirates	46.1	70.0	93.2	123.2	149.3	165.7	206.5
Low-income countries	11.4	17.3	21.1	25.4	30.1	36.6	43.4
Afghanistan	1.3	2.0	1.7	1.9	1.9	2.0	2.2
Armenia	0.5	0.9	1.1	1.4	1.5	1.8	2.0
Djibouti	0.2	0.3	0.3	0.3	0.3	0.4	0.4
Georgia	0.9	1.3	1.6	2.2	2.6	3.2	3.8
Kyrgyz Republic	0.6	0.8	1.0	1.0	1.4	2.0	2.6
Mauritania	0.4	0.4	0.5	0.7	1.5	1.4	1.6
Sudan	1.4	2.6	3.8	5.0	6.0	8.8	10.1
Tajikistan	0.7	1.0	1.2	0.6	0.7	0.7	0.7
Uzbekistan	3.2	3.8	4.8	5.4	6.4	9.0	11.3
Yemen	3.2	4.3	5.0	6.8	7.9	7.3	8.6
Emerging markets	55.1	70.3	84.2	97.0	112.3	130.3	149.0
Egypt	15.1	18.0	22.9	28.0	33.0	38.5	45.5
Jordan	3.8	4.8	6.0	6.6	8.1	9.1	10.4
Lebanon	6.4	8.7	10.5	11.3	13.3	14.6	16.4
Morocco	10.9	14.2	16.6	18.8	21.7	27.0	31.2
Pakistan	10.0	13.7	15.1	17.8	20.3	21.2	22.5
Tunisia	8.9	10.8	13.2	14.5	15.8	19.8	22.9
<i>Memorandum</i>							
CCA	19.3	29.5	40.8	54.8	75.5	98.8	132.6
MENA	265.8	384.4	516.8	702.1	839.2	960.0	1,228.4
<i>Of which</i>							
GCC	154.6	228.9	304.1	424.5	508.7	571.4	751.1
Maghreb	49.0	66.6	85.2	114.8	136.5	156.3	199.2

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

Table 15. Imports of Goods and Services

(In billions of U.S. dollars)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	265.4	351.6	467.9	562.8	669.9	787.5	942.8
Oil exporters	179.3	248.5	341.2	408.0	484.6	568.0	686.9
Algeria	12.1	16.3	21.8	24.6	25.5	32.1	40.9
Azerbaijan	2.3	4.8	6.3	7.0	8.1	9.4	11.3
Bahrain	4.7	6.2	8.2	10.2	11.3	12.3	15.3
Iran	20.5	39.3	49.0	55.0	62.6	69.4	78.0
Iraq	...	...	24.3	24.8	25.9	30.3	43.0
Kazakhstan	9.1	13.3	18.9	25.5	32.8	44.3	49.6
Kuwait	12.6	16.5	19.2	22.8	24.6	34.0	39.0
Libya	6.2	8.8	10.7	13.5	15.7	21.8	33.1
Oman	6.8	8.3	10.6	11.1	13.6	17.6	20.5
Qatar	5.2	6.7	8.3	13.3	21.3	26.8	33.5
Saudi Arabia	51.5	59.2	70.7	88.3	113.9	127.8	163.0
Syria	5.6	8.2	10.5	12.8	15.0	17.1	19.7
Turkmenistan	2.3	3.4	4.1	3.9	3.6	4.6	6.2
United Arab Emirates	40.4	57.7	78.5	95.1	110.6	120.5	134.0
Low-income countries	14.0	22.2	27.3	34.8	42.4	50.1	57.9
Afghanistan	2.7	4.9	5.6	6.8	7.4	8.3	9.4
Armenia	1.0	1.4	1.6	2.1	2.5	3.5	4.4
Djibouti	0.3	0.3	0.3	0.4	0.5	0.6	0.7
Georgia	1.4	1.9	2.5	3.3	4.4	5.8	6.9
Kyrgyz Republic	0.7	0.9	1.1	1.4	2.3	3.2	3.9
Mauritania	0.6	0.7	1.2	1.8	1.6	1.7	2.0
Sudan	2.3	3.4	4.7	7.7	10.0	10.9	12.3
Tajikistan	0.8	1.1	1.5	1.2	1.6	2.4	2.6
Uzbekistan	3.1	3.1	3.9	4.1	4.4	5.2	6.7
Yemen	3.3	4.5	4.9	6.0	7.8	8.4	8.9
Emerging markets	72.1	80.8	99.3	119.9	142.9	169.3	197.9
Egypt	21.4	19.6	23.3	30.2	38.2	44.9	54.9
Jordan	5.7	7.0	9.4	11.9	13.2	15.5	17.8
Lebanon	11.0	12.6	15.2	14.9	16.0	18.9	21.1
Morocco	12.3	16.0	19.8	22.8	25.8	34.2	39.8
Pakistan	12.1	14.0	17.7	25.6	33.2	35.3	40.6
Tunisia	9.6	11.7	13.9	14.6	16.4	20.5	23.8
<i>Memorandum</i>							
CCA	20.8	29.9	39.9	48.5	59.8	78.4	91.6
MENA	232.5	307.7	410.3	488.7	576.9	673.7	810.6
<i>Of which</i>							
GCC	121.1	154.5	195.6	240.8	295.3	339.0	405.2
Maghreb	40.9	53.5	67.4	77.3	84.9	110.3	139.6

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

Table 16. Current Account Balance

(In billions of U.S. dollars)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	26.8	69.2	96.7	216.7	277.5	305.2	451.2
Oil exporters	33.0	65.1	95.5	221.8	287.7	321.5	471.9
Algeria	3.9	8.8	11.1	21.2	29.0	30.6	35.5
Azerbaijan	-0.6	-2.0	-2.6	0.2	3.7	9.0	19.4
Bahrain	0.0	0.2	0.5	1.5	2.1	4.4	5.6
Iran	5.3	0.8	1.4	16.6	20.7	30.5	40.7
Iraq	...	...	-10.2	-1.2	4.3	4.7	8.8
Kazakhstan	-0.6	-0.3	0.3	-1.1	-1.8	-6.9	-2.2
Kuwait	6.9	9.4	18.2	34.3	51.1	52.7	65.6
Libya	4.6	5.3	7.4	17.4	25.6	24.3	33.6
Oman	0.6	0.8	0.6	4.7	4.3	4.0	5.9
Qatar	2.6	5.9	7.1	14.1	16.1	23.4	43.8
Saudi Arabia	4.6	28.1	52.0	90.1	95.5	100.8	145.2
Syria	0.8	0.2	-0.8	-1.2	-2.1	-2.2	-2.8
Turkmenistan	-0.1	0.3	0.1	0.9	3.4	4.5	6.8
United Arab Emirates	4.8	7.6	10.3	24.3	35.9	41.7	65.9
Low-income countries	-1.5	-1.5	-1.2	-2.2	-4.3	-4.7	-3.4
Afghanistan	-0.1	-0.5	-0.3	-0.2	-0.4	-0.1	0.0
Armenia	-0.3	-0.2	0.0	-0.1	-0.1	-0.6	-0.8
Djibouti	0.0	0.0	0.0	0.0	-0.1	-0.2	-0.2
Georgia	-0.3	-0.3	-0.5	-0.8	-1.2	-2.0	-2.2
Kyrgyz Republic	-0.1	0.0	0.1	0.1	-0.2	-0.2	-0.4
Mauritania	0.0	-0.2	-0.5	-0.9	0.0	-0.2	-0.3
Sudan	-1.2	-1.4	-1.4	-3.0	-5.5	-5.4	-5.3
Tajikistan	0.0	0.0	-0.1	-0.1	-0.1	-0.4	-0.3
Uzbekistan	0.0	0.9	1.2	1.9	3.2	5.3	6.5
Yemen	0.5	0.2	0.2	0.6	0.2	-0.9	-0.4
Emerging markets	-4.6	5.5	2.4	-2.9	-5.9	-11.6	-17.3
Egypt	-1.0	1.9	3.4	2.9	0.9	1.9	1.2
Jordan	0.2	1.2	0.1	-2.2	-1.6	-2.8	-2.9
Lebanon	-3.4	-2.6	-3.3	-2.9	-1.4	-2.6	-2.6
Morocco	0.5	1.6	1.0	1.1	1.9	-0.1	-0.9
Pakistan	-0.1	4.1	1.8	-1.5	-5.0	-7.1	-11.0
Tunisia	-0.7	-0.7	-0.6	-0.3	-0.6	-0.9	-1.0
<i>Memorandum</i>							
CCA	-2.0	-1.6	-1.4	1.1	6.8	8.8	26.6
MENA	29.0	66.7	96.3	217.1	275.7	303.5	435.5
<i>Of which</i>							
GCC	19.5	52.1	88.7	169.0	205.1	227.0	332.0
Maghreb	8.2	14.8	18.4	38.6	55.8	53.7	66.9

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

Table 17. Current Account Balance

(In percent of GDP)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	3.0	6.8	8.1	14.9	16.2	15.2	18.2
Oil exporters	5.5	9.2	10.9	20.2	22.0	20.7	24.2
Algeria	7.1	13.0	13.1	20.6	25.2	23.3	23.6
Azerbaijan	-12.3	-27.8	-29.8	1.3	17.7	28.8	39.5
Bahrain	0.0	2.0	4.2	11.0	13.3	25.5	26.6
Iran	5.1	0.6	0.9	8.8	9.3	10.4	11.2
Iraq	...	...	-39.4	-4.0	8.7	7.5	10.7
Kazakhstan	-2.5	-0.9	0.8	-1.8	-2.2	-6.6	-1.7
Kuwait	19.9	19.7	30.6	42.5	51.7	47.4	45.2
Libya	13.9	21.9	24.3	41.8	51.6	42.5	42.6
Oman	1.4	3.8	2.4	15.2	12.1	10.0	11.7
Qatar	13.3	25.3	22.4	33.2	30.6	34.6	44.6
Saudi Arabia	2.1	13.1	20.7	28.5	27.4	26.8	31.3
Syria	4.0	0.8	-3.2	-4.1	-6.1	-5.8	-6.6
Turkmenistan	-6.2	2.7	0.6	5.1	15.3	16.8	23.8
United Arab Emirates	7.1	8.6	10.0	18.3	22.0	21.6	27.5
Low-income countries	-3.4	-2.6	-1.8	-2.7	-4.2	-3.7	-2.2
Afghanistan	-3.7	-10.3	-4.9	-2.8	-6.3	-0.8	0.0
Armenia	-13.8	-6.8	-0.5	-1.0	-1.8	-6.5	-6.8
Djibouti	-5.1	3.4	-1.3	1.3	-14.2	-25.2	-22.6
Georgia	-8.8	-8.6	-8.9	-11.9	-15.9	-19.7	-16.6
Kyrgyz Republic	-9.2	1.7	4.9	3.2	-6.6	-6.5	-8.3
Mauritania	-4.3	-13.6	-34.6	-47.2	-1.3	-6.7	-8.6
Sudan	-9.7	-7.8	-6.5	-10.9	-15.1	-11.8	-9.8
Tajikistan	-3.7	-1.3	-3.9	-2.7	-3.0	-9.5	-8.3
Uzbekistan	0.1	8.7	10.1	13.6	18.8	23.8	24.6
Yemen	5.4	1.5	1.6	3.8	1.1	-4.3	-1.4
Emerging markets	-1.8	2.0	0.8	-0.9	-1.6	-2.8	-3.6
Egypt	-1.1	2.4	4.3	3.2	0.8	1.5	0.8
Jordan	2.3	12.2	0.8	-17.4	-11.3	-17.3	-15.5
Lebanon	-19.9	-13.2	-15.5	-13.6	-6.0	-10.7	-9.8
Morocco	1.2	3.2	1.7	1.9	2.8	-0.1	-1.1
Pakistan	-0.2	4.9	1.8	-1.4	-3.9	-4.9	-6.9
Tunisia	-3.7	-2.9	-2.0	-1.1	-2.0	-2.5	-2.7
<i>Memorandum</i>							
CCA	-4.1	-2.8	-1.8	1.1	4.9	4.8	10.9
MENA	3.7	7.7	9.5	17.6	19.2	18.1	21.2
<i>Of which</i>							
GCC	5.5	12.8	18.4	27.4	28.7	28.2	32.6
Maghreb	5.7	8.8	9.1	16.5	21.2	17.9	18.8

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

Table 18. Real Effective Exchange Rates

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

	Average 1998–2002	2003	2004	2005	2006	Est. 2007
Middle East and Central Asia	-0.7	-8.5	-2.9	1.2	3.0	0.7
Oil exporters	-0.1	-6.8	-3.1	0.8	2.4	0.4
Algeria	-2.4	-9.5	0.6	-3.9	-0.3	-0.9
Azerbaijan	-3.9	-10.7	-3.8	6.3	8.7	8.8
Bahrain	0.4	-7.7	-6.7	-2.8	-2.9	-10.0
Iran	4.6	-2.1	1.0	6.0	3.9	3.6
Iraq	...	...	...	...	...	...
Kazakhstan	-3.3	-3.5	5.7	3.0	7.6	2.3
Kuwait	1.7	-7.2	-5.1	2.1	0.8	1.9
Libya	-15.4	-17.4	-13.2	-1.8	-0.4	0.8
Oman	-0.3	-8.2	-6.1	-1.0	0.0	-1.5
Qatar	2.3	-5.7	-0.1	7.1	8.3	3.2
Saudi Arabia	0.1	-8.5	-6.7	-2.6	-0.5	-2.9
Syria	-4.6	3.4	-0.2	1.7	10.8	3.0
Turkmenistan	17.0	-5.7	-3.5	2.5	4.5	-1.2
United Arab Emirates	3.3	-6.7	-2.7	2.5	5.4	1.9
Low-income countries	-5.1	-8.0	0.2	4.0	8.4	5.4
Afghanistan	...	11.4	6.8	2.7	-2.0	1.5
Armenia	0.8	-9.0	4.0	9.4	6.5	12.1
Djibouti	3.1	-9.3	-3.6	-1.1	-1.2	-4.1
Georgia	-2.8	-6.8	6.7	6.2	5.6	3.7
Kyrgyz Republic	-3.4	-0.6	-3.2	1.2	1.5	8.2
Mauritania	-11.2	-8.6	-1.1	8.5	1.3	51.7
Sudan	1.6	-1.2	1.6	10.1	16.7	6.1
Tajikistan	-1.4	-5.4	0.3	-5.5	-2.7	-2.4
Uzbekistan	-18.9	-22.1	-8.3	-6.6	-2.0	-1.2
Yemen	6.0	-3.4	4.2	3.8	9.9	4.0
Emerging markets	-1.2	-12.4	-3.1	1.6	3.6	0.2
Egypt	-1.4	-29.1	-4.1	8.4	5.0	2.6
Jordan	2.6	-7.2	-3.9	-0.3	2.6	-2.4
Lebanon	3.0	-10.7	-6.9	-4.1	2.1	-4.0
Morocco	0.1	-1.0	-1.2	-1.8	1.2	-0.4
Pakistan	-2.6	-0.1	-1.8	0.2	5.3	0.5
Tunisia	-0.5	-5.0	-3.5	-4.6	-0.8	-2.9
<i>Memorandum</i>						
CCA	-8.1	-9.2	1.3	2.0	5.6	3.3
MENA	0.0	-9.2	-3.3	1.2	2.5	0.4
<i>Of which</i>						
GCC	0.9	-7.8	-5.3	-0.3	1.5	-0.9
Maghreb	-4.6	-8.0	-2.7	-3.0	0.0	-0.3

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

Table 19. Gross Official Reserves

(In billions of U.S. dollars)

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	135.5	224.6	272.5	326.3	629.8	841.1	1,069.0
Oil exporters	95.2	160.0	201.5	248.6	533.1	726.1	945.0
Algeria	12.9	32.9	43.1	56.2	77.8	110.8	145.5
Azerbaijan	0.6	0.8	1.1	1.2	2.5	4.3	7.4
Bahrain	1.2	1.4	1.6	1.9	1.0	4.4	5.6
Iran	12.5	24.7	33.3	46.8	60.5	77.5	97.6
Iraq	4.7	5.7	7.9	12.0	19.7	27.4	29.2
Kazakhstan	2.3	5.0	9.3	7.1	19.1	17.2	16.5
Kuwait	7.1	7.6	8.3	9.0	12.6	15.5	15.6
Libya	10.5	19.5	25.6	39.3	59.2	83.9	118.5
Oman	2.6	3.6	3.6	4.4	5.0	8.0	9.3
Qatar	1.3	2.9	3.4	4.6	5.4	6.5	8.1
Saudi Arabia ¹	18.0	22.9	27.5	26.8	225.2	305.3	413.5
Syria	12.5	17.9	18.1	18.2	17.2	16.6	16.1
Turkmenistan	...	...	...	...	...	...	...
United Arab Emirates	12.7	15.1	18.7	21.3	28.0	48.8	62.0
Low-income countries	5.0	8.5	11.0	13.7	18.4	22.8	27.1
Afghanistan	0.4	0.8	1.3	1.7	2.1	2.3	2.5
Armenia	0.4	0.5	0.6	0.8	1.1	1.7	2.1
Djibouti	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Georgia	0.1	0.2	0.4	0.5	0.9	1.4	1.7
Kyrgyz Republic	0.3	0.4	0.5	0.6	0.8	1.2	1.3
Mauritania	0.1	0.0	0.0	0.1	0.2	0.2	0.2
Sudan	0.2	0.4	0.8	1.7	1.7	1.4	1.4
Tajikistan	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Uzbekistan	1.2	1.7	2.1	2.9	4.7	7.5	10.7
Yemen	2.5	4.4	5.1	5.3	6.8	7.0	7.0
Emerging markets	35.3	56.1	60.0	64.0	78.3	92.1	96.9
Egypt	16.4	14.8	14.8	19.3	23.0	28.3	32.6
Jordan	2.4	4.7	4.8	4.7	6.2	6.9	5.4
Lebanon	5.9	10.3	9.6	9.6	11.4	11.5	12.3
Morocco	6.6	13.7	16.3	16.1	20.2	23.2	27.3
Pakistan	1.9	9.5	10.6	9.8	10.8	14.3	10.1
Tunisia	2.1	3.0	4.0	4.4	6.8	8.0	9.2
<i>Memorandum</i>							
CCA	5.0	8.5	14.0	13.1	29.2	33.3	39.8
MENA	128.5	206.5	247.9	303.5	589.9	793.5	1,019.1
<i>Of which</i>							
GCC	42.9	53.5	63.1	67.8	277.2	388.4	514.3
Maghreb	32.1	69.2	89.1	116.1	164.2	226.1	300.8

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

¹Saudi Arabia Monetary Agency gross foreign assets.

Table 20. Total Gross External Debt(In percent of GDP)¹

	Average 1998–2002	2003	2004	2005	2006	Est. 2007	Proj. 2008
Middle East and Central Asia	37.3	33.8	31.6	28.5	29.7	28.6	25.4
Oil exporters	28.0	23.0	22.1	20.3	23.8	24.7	22.1
Algeria	49.7	34.4	25.6	16.7	4.9	3.6	2.7
Azerbaijan ²	18.6	19.7	18.5	12.5	9.4	8.1	7.5
Bahrain ²	4.6	12.0	10.5	9.0	7.6	6.9	5.6
Iran	10.0	12.7	14.3	13.1	10.4	6.7	4.7
Iraq	...	...	493.2	371.0	211.2	171.4	66.6
Kazakhstan	65.8	74.3	75.8	76.0	91.4	90.5	73.2
Kuwait	31.5	25.6	20.4	20.4	26.8	23.6	18.4
Libya	19.5	23.2	18.3	13.4	11.2	9.8	7.1
Oman	35.8	18.8	17.8	12.2	15.0	16.3	14.2
Qatar	97.4	56.7	47.3	48.1	56.7	59.6	54.0
Saudi Arabia	16.1	11.1	9.4	9.7	10.8	10.8	10.1
Syria	91.1	77.3	73.2	23.3	19.4	16.8	16.3
Turkmenistan	41.3	13.3	9.0	5.4	3.3	2.0	1.9
United Arab Emirates ³	29.6	18.7	24.0	30.8	47.0	58.6	56.4
Low-income countries	88.0	80.7	68.3	69.6	57.7	40.5	36.1
Afghanistan	13.5	14.4	14.1	184.2	170.9	21.3	18.5
Armenia	43.8	39.1	33.1	22.4	18.9	17.2	13.7
Djibouti	53.0	66.8	68.4	60.5	53.1	51.9	54.1
Georgia	52.3	46.2	39.4	31.0	27.7	26.1	32.2
Kyrgyz Republic	117.5	103.5	95.2	85.5	77.7	60.0	47.9
Mauritania	237.4	223.2	210.8	132.9	94.9	94.1	45.0
Sudan	176.3	144.6	119.9	101.1	77.5	64.7	59.6
Tajikistan	110.9	83.8	55.8	50.9	42.2	40.5	42.4
Uzbekistan	32.2	41.9	36.0	28.9	22.7	17.4	14.7
Yemen	60.3	45.0	38.5	30.8	28.6	26.8	23.6
Emerging markets	48.8	51.8	50.0	44.6	41.7	38.7	34.7
Egypt	30.6	36.1	37.9	32.2	28.8	24.2	20.0
Jordan ⁴	87.2	74.5	66.1	56.6	51.9	46.3	27.8
Lebanon	134.3	174.8	187.4	189.6	197.3	197.7	195.6
Morocco	46.1	33.7	29.5	24.4	24.3	24.6	22.3
Pakistan	44.7	39.9	34.0	31.1	28.1	26.1	24.4
Tunisia	61.7	71.2	69.1	62.3	59.8	58.0	53.1
<i>Memorandum</i>							
CCA	51.4	59.5	58.7	55.2	62.4	58.8	47.4
MENA	35.8	31.6	29.4	25.3	25.9	25.6	22.9
<i>Of which</i>							
GCC	25.2	17.5	16.9	18.4	24.8	28.3	26.5
Maghreb	45.3	39.5	33.1	24.6	18.3	17.1	14.2

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

¹Nominal GDP is converted to U.S. dollars using period average exchange rate.²Public and publicly guaranteed debt; private debt data are not reliable.³Mostly foreign liabilities of U.A.E. commercial banks and private institutions that are more than offset by their foreign assets. Over the period 2003–06, deposits of nonresidents in U.A.E. banks constituted about 17 percent of foreign liabilities on average.⁴Excludes deposits of nonresidents held in the banking system.

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