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Regional Economic Outlook

Middle East and Central Asia

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**Middle East
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Preface

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

The analysis in this report was coordinated under the general supervision of Masood Ahmed (Director of MCD). The project was directed by Ratna Sahay (Deputy Director in MCD) and Ralph Chami (Chief of MCD's Regional Studies Division).

The primary contributors to this report are Yasser Abdih, Adolfo Barajas, Tobias Rasmussen, and Axel Schimmelpfennig. Other contributors include Ali Al-Eyd, David Amaglobeli, Serhan Cevik, Raphael Espinoza, Harald Finger, Heiko Hesse, Sissi Huang, Nadeem Ilahi, Dima Jardaneh, May Khamis, Alina Luca, Liliya Repa, Gabriel Sensenbrenner, and Niklas Westelius.

Jaime Espinosa and Anjali Garg provided research assistance and managed the database and the computer systems. Christine Ebrahimzadeh provided editorial guidance. Sonia Lowman was responsible for word processing and layout. Jasmine Lief was responsible for document management. Joanne Blake and Julia Lutz of the External Relations Department edited the manuscript and managed the production of the publication.

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\$80 a barrel in 2010 and US\$83 in 2011; and that the six-month London interbank offered rate (LIBOR) on U.S. dollar deposits will average 0.5 percent in 2010 and 1.7 percent in 2011. These are, of course, working hypotheses rather than forecasts, and the uncertainties surrounding them add to the margin of error that would in any event be involved in the projections. The 2009 data in the figures and tables are estimates. These estimates for 2009 and projections for 2010 and 2011 are based on statistical information available through April 9, 2010.

The following conventions are used in this publication:

- In tables, ellipsis points (. . .) indicate “not available,” and 0 or 0.0 indicates “zero” or “negligible.” Minor discrepancies between sums of constituent figures and totals are due to rounding.
- An en dash (–) between years or months (for example, 2008–09 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, 2008/09) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY2009).
- “Billion” means a thousand million; “trillion” means a thousand billion.
- “Basis points (bps)” refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to $\frac{1}{4}$ 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.

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

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

Regional Economic Outlook
Middle East and Central Asia Department
International Monetary Fund
700 19th St., N.W.
Washington, D.C. 20431, U.S.A.
E-mail: mcdreo@imf.org

Country and Regional Groupings

The May 2010 *Regional Economic Outlook: Middle East and Central Asia* (REO), covering countries in the Middle East and Central Asia Department (MCD) of the International Monetary Fund (IMF), provides a broad overview of recent economic developments in 2009 and prospects and policy issues for the remainder of 2010 and 2011. To facilitate the analysis, the 30 MCD countries covered in this report are divided into two groups: (1) countries of the Middle East, North Africa, Afghanistan, and Pakistan (MENAP)—which are further subdivided into oil exporters and oil importers; and (2) countries of the Caucasus and Central Asia (CCA). The country acronyms used in some figures are included in parentheses.

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

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

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

In addition, the following geographical groupings are used:

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

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

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

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

Highlights

Economic prospects for the countries of the Middle East and Central Asia are improving along with the global recovery, although the latter remains fragile. Growth in the region—comprising the (1) Middle East, North Africa, Afghanistan, and Pakistan (MENAP) oil exporters; (2) MENAP oil importers; and (3) Caucasus and Central Asia (CCA)—will gather momentum in 2010, but stay below precrisis levels. While the impact on the region of the Dubai crisis and the unfolding events in Greece has been limited so far, a repricing of sovereign debt cannot be ruled out, adding an element of uncertainty to the outlook.

Dealing with the legacy of the global economic crisis will be the priority in 2010. In some MENAP oil exporters, bank balance-sheet strains emerged during the crisis, and country-specific solutions to address these strains will need to be found. As unemployment continues to rise in the MENAP oil importers, the need to raise growth and competitiveness will take center stage, against the backdrop of a weak pickup in external demand and tight competition from other emerging markets. In the CCA, the priority is to repair bank balance sheets as a prerequisite for a recovery in credit.

MENAP Oil Exporters: Emerging from the Crisis

The MENAP oil exporters were hit hard in 2009. In the first part of the year, crude oil prices plummeted to US\$40 per barrel, real estate and asset prices plunged, and external financing dried up. The oil exporters' combined current account surplus fell to US\$53 billion in 2009, after having risen more than tenfold in the previous decade to US\$362 billion in 2008. Oil GDP contracted by 4.7 percent in 2009, but a massive step-up in government spending along with central bank liquidity support and capital injections into the banking sector helped mitigate the impact of the crisis on the non-oil sector, which grew by 3.6 percent. Overall, these economies grew by 1.5 percent in 2009.

A resumption of capital inflows and the rebound in crude oil prices, to more than US\$80 per barrel by the end of last year, have aided the recovery in these countries. International reserve positions are improving again—by an estimated US\$46 billion in 2010. Higher oil prices and output are projected to boost oil exports by 31 percent, to US\$682 billion, more than double the current account surplus, to US\$140 billion, and boost oil-GDP growth to 4.3 percent in 2010. Moreover, many governments—most notably in Saudi Arabia—are planning to expand spending. This stimulus will continue to buoy domestic non-oil-sector activity, projected to grow by 4.1 percent in 2010, and sustain positive spillovers to the global economy as well as neighboring countries through trade and remittances.

Strong oil demand underpins a promising outlook for the medium term. In 2011, the recovery is expected to strengthen further, with overall GDP growth reaching 4.5 percent. Although growth is slated to remain well below precrisis levels, it is more likely to be sustainable in the long run.

For many MENAP oil exporters, an important impediment to a stronger recovery is sluggishness in private-sector credit. In previous years, vigorous credit growth was driven by high leverage, expanding external funding, rapid deposit growth, and surging asset prices, all of which reversed during the crisis, leading to considerable strains on bank balance sheets. To revive credit, banks will need to repair their balance sheets by recognizing losses and, in some cases, governments will need to support this by requiring greater transparency and enhancing regulatory clarity. Over the medium term, local debt and equity markets will need to be developed in order to provide alternatives to bank finance.

MENAP Oil Importers: Slowly Gaining Traction

MENAP oil importers have limited financial and trade ties, and positive spillovers from fiscal expansions in the MENAP oil exporters have offset the impact of the global slowdown. Thus, overall growth fell only modestly to 3.8 percent in 2009, from 5 percent in 2008. With trade rebounding since mid-2009 and investment and bank credit beginning to pick up, growth is estimated to increase marginally to 4.1 percent in 2010 and 4.8 percent in 2011. These growth rates, however, are below the average for emerging and developing countries, and, more importantly, insufficient to create the jobs needed in a region where the working-age population is projected to increase by a quarter in the next decade.

Credit growth—which fell to a weighted average of 2 percent in the year to October 2009 from almost 20 percent before the crisis—remains low. And the resurgence of capital inflows witnessed in other emerging markets is not yet evident in most MENAP oil importers. Continued weakness in European demand, appreciated exchange rates, and competition from other emerging markets, especially Asia, constrain the potential for export-led growth. Consequently, enhancing competitiveness to raise growth rates and generate employment will be key challenges in this region. Additional efforts to create a more business-friendly environment for foreign and local investments, liberalize the financial sector, and develop local capital markets will help meet this goal.

High debt levels in several countries limit the scope for fiscal stimulus. And for the most part, little space remains for additional monetary stimulus, given relatively high inflation in much of the region and international interest rates having begun to rise.

The CCA: Incipient Recovery

The global economic downturn took a toll on the CCA, though countercyclical fiscal and monetary policies and donor support provided some offset. With exports and remittances falling sharply, energy importers were hit hardest—Armenia suffered the largest drop in growth, from 6.8 percent in 2008 to –14 percent in 2009, as a construction boom faltered. In Georgia, the contraction of 4 percent was less severe, partly because the slowdown had already started in 2008. In the Kyrgyz Republic and Tajikistan, growth also fell in 2009, but stayed positive at 2 to 3 percent. The CCA energy exporters fared better, and their growth declined only moderately—from 6.6 percent in 2008 to 4.7 percent in 2009—but was substantially lower than the 12.6 percent rate recorded in 2007. Kazakhstan was affected markedly by international financial market turbulence, evidenced by a net outflow of private portfolio capital of US\$5 billion since the beginning of the crisis.

Across the CCA, there are signs of recovery. Exports have begun to pick up, the decline in remittances appears to be slowing or reversing, and capital inflows have turned positive. In light of these developments, growth for the CCA is projected to rise to 4.3 percent in 2010. Growth remains weaker in the energy importers, where it is projected at about 2 to 4 percent. In all four energy importers, fiscal constraints loom large, and additional donor support would be needed to help create the fiscal room needed if the recoveries were to falter. Growth is expected to be strongest in the energy exporters, with projections ranging from 2 to 3 percent for Azerbaijan and Kazakhstan to 8 percent in Uzbekistan and 12 percent in Turkmenistan.

A common challenge across most CCA countries is to revive private-sector credit growth. CCA banking systems were adversely affected by the global crisis, and credit growth has slowed sharply and even turned negative in real terms in a number of countries, compared with the meteoric increases, ranging from 40 to 80 percent, in the period immediately prior to the crisis. Policies to restore credit growth should aid banks to repair balance sheets and, under particular circumstances, provide liquidity and capital injections. In the medium term, macroeconomic and macroprudential policies should promote dedollarization—high levels of dollarization of 40 to 80 percent were a key transmission channel of the global crisis to the region—and develop local debt markets to provide a more diversified funding base for banks.

World Economic Outlook¹

The global recovery has evolved better than expected—tepidly in many advanced economies but solidly in most emerging and developing economies. In 2010 and 2011, world output is expected to rise by about 4¼ percent, following a ½ percent contraction in 2009 (see table). Policy support was essential to kick-start the recovery. Monetary policy has been highly expansionary, and supported by unconventional liquidity provision. Fiscal policy provided a major stimulus in response to the deep downturn.

Overview of the World Economic Outlook Projections (Percent change)				
	Year over Year			
	2008	2009	Projections	
			2010	2011
World output	3.0	-0.6	4.2	4.3
Advanced economies	0.5	-3.2	2.3	2.4
Of which: United States	0.4	-2.4	3.1	2.6
European Union	0.9	-4.1	1.0	1.8
Emerging and developing economies	6.1	2.4	6.3	6.5
Of which: MENAP	4.6	2.3	4.2	4.6
CCA	6.5	3.5	4.3	4.7
Commonwealth of Independent States	5.5	-6.6	4.0	3.6
Of which: Russia	5.6	-7.9	4.0	3.6
World trade volume (goods and services)	2.8	-10.7	7.0	6.1
Commodity prices				
Oil ¹	36.4	-36.3	29.5	3.8
Nonfuel ²	7.5	-18.7	13.9	-0.5

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

¹Simple average of prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was \$61.78 in 2009; the assumed price based on future markets is \$80 in 2010 and \$83 in 2011.

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

Among advanced economies, the United States is off to a better start than Europe and Japan. Among emerging and developing economies, emerging Asia is in the lead. Growth is also solidifying in key Latin American economies but continues to lag behind in many emerging European and various Commonwealth of Independent States countries. Sub-Saharan Africa is weathering the global crisis well, and its recovery is expected to be stronger than following past global downturns.

Countries that are off to a strong start are likely to continue to lead the recovery, as growth in others is held back by lasting damage to financial sectors and household balance sheets. Risks are generally to the downside, with those related to public debt growth in advanced economies having become sharply more evident. The main concern is that room for policy maneuvers in many advanced economies has either been largely exhausted or is much more limited, leaving the fragile recoveries exposed to new shocks. In addition, bank exposures to real estate continue to pose downside risks, mainly in the United States and parts of Europe.

The recoveries in real and financial activity are mutually supportive, but access to credit remains difficult for some sectors. In advanced economies, the tightening of bank lending standards is ending, and the credit crisis appears to be bottoming out. In many emerging and developing economies, credit growth is reaccelerating. Nevertheless, financial conditions remain more difficult than before the crisis.

Together with real and financial activity, cross-border financial flows from advanced to many emerging economies have also rebounded strongly. Key drivers include rapid growth in emerging economies, large yield differentials in their favor, and a returning appetite for risk. The recovery of cross-border flows has come with some real effective exchange-rate changes—depreciation of the U.S. dollar and appreciation of some other floating currencies of advanced and emerging economies. But relative to precrisis levels, changes have been generally limited and global current account imbalances are forecast to widen again over the medium term.

Given the large amount of public debt that has been accumulated during this recession, in many advanced economies exit policies need to emphasize fiscal consolidation and financial sector repair. This will allow monetary policy to remain accommodative without leading to inflation pressure or financial market instabilities. In emerging and developing economies, priorities depend on room available for fiscal policy maneuvers and on current account positions. Spillovers related to fiscal policies are particularly relevant for the major advanced economies, as large deficits and the lack of well-specified medium-term fiscal consolidation strategies in these economies could adversely affect funding costs of other advanced or emerging economies.

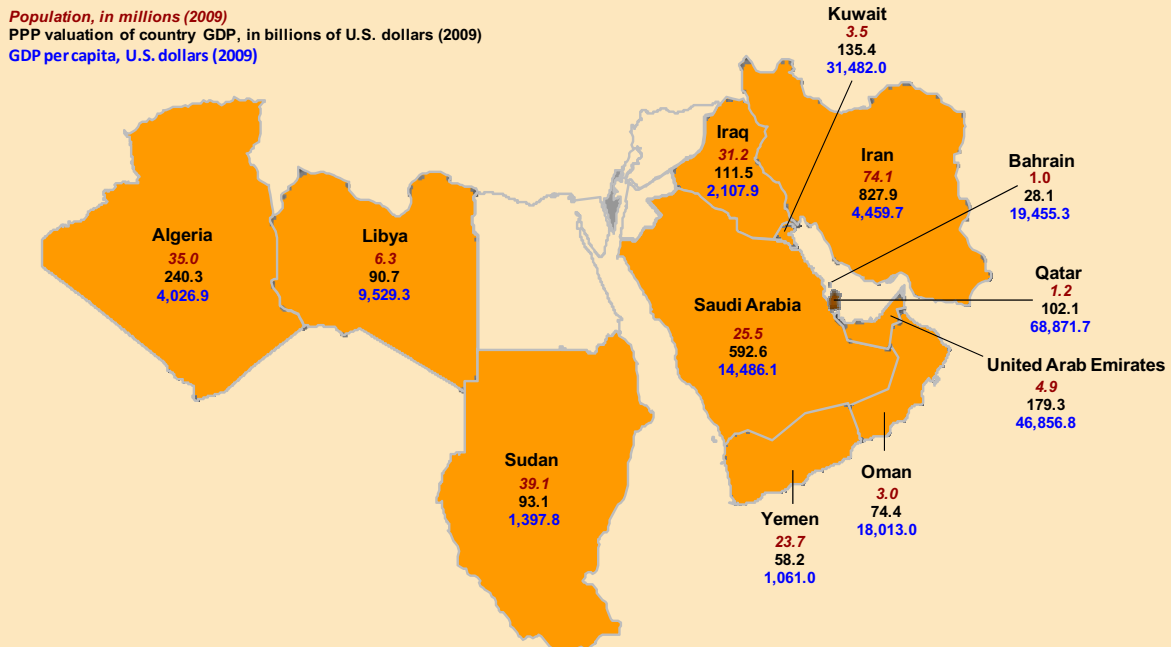
¹ See IMF, *World Economic Outlook* (April 2010) for more information.

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A.1. MENAP Oil Exporters: Emerging from the Crisis

- Several MENAP oil exporters implemented sizable fiscal stimulus packages in 2009, which helped cushion the impact on the non-oil sector and on neighboring countries.
- Continuation of this policy, in tandem with improving external conditions, has led to an incipient recovery in 2009 and has brightened the outlook for 2010, when growth is projected to gather momentum. At slightly more than 4 percent, non-oil GDP growth in the coming years will remain below precrisis levels but will likely be more sustainable over the long run.
- Clouding this outlook are challenges in banking systems where credit remains sluggish and losses on nonperforming loans are yet to be fully recognized. Exit strategies from accommodative macroeconomic policies—which have proved effective in preventing more severe credit and economic slowdowns—will need to depend on the pace of recovery.
- Also casting doubt on an otherwise positive outlook—for the United Arab Emirates in particular—is the Dubai World (DW) debt standstill announcement. This event also may have broader implications over time for quasi-sovereign debt and the treatment of implicit government guarantees. However, it has had limited direct impact on other countries so far.

MENAP Oil-Exporting Countries



Sources: IMF, Regional Economic Outlook database; and Microsoft Map Land.

Note: The country names and borders on this map do not necessarily reflect the IMF's official position.

Dealing with the Effects of the Global Financial Crisis

For the MENAP oil exporters, 2009 was a difficult year, as the region confronted two major shocks emanating from the global financial crisis: a sharp decline in oil prices—by 36 percent, on average, relative to 2008—and a tightening of financing conditions, with a major retrenchment in capital inflows combined with pronounced increases in sovereign spreads. In addition, oil production cutbacks in several major producers led oil GDP to contract in real terms by 4.7 percent in 2009 (Figure A.1.1). The aggregate current account surplus, which had increased more than tenfold in six years to US\$362 billion in 2008, shrank to US\$53 billion in 2009.

To cushion against these shocks, several countries pursued vigorous countercyclical macroeconomic policies. By taking advantage of ample fiscal room—relatively low debt levels and large reserve buffers accumulated during the preceding years—MENAP oil exporters were able to undertake large spending programs concentrated on infrastructure investment. Saudi Arabia implemented the largest stimulus package relative to GDP among G20 countries in 2009. Drawing on savings accumulated in its oil stabilization fund, Algeria continued a sizable

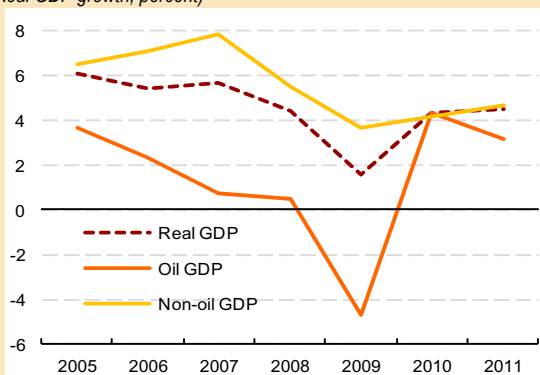
public investment program to support non-hydrocarbon activity; total central government expenditure increased by more than 10 percentage points of GDP from 2007 to 2009.

On the monetary front, in line with international trends, central banks in many countries reduced reserve requirements and cut interest rates and maintained them at low levels. They also undertook unconventional monetary policies by injecting liquidity or capital into banking systems that had suffered a reduction in funding and weakened balance sheets. While private-sector credit growth slowed considerably in many countries, evidence indicates that countercyclical monetary policy—both conventional and unconventional—was effective in dampening the slowdown (Section A.3).

In some countries, where a relatively high share of oil revenues was already being used to finance government spending, and which faced significant financing constraints, the possibility of countercyclical fiscal policy was precluded. In Iraq, for example, the drop in revenues by $\frac{1}{3}$ in nominal terms, led to a compression in government spending, most of which fell on investment. Iran faced a 2.5 percentage-point contraction in revenues and responded with a procyclical fiscal policy, reducing its non-oil deficit by more than 3.7 percentage points of non-oil GDP. Similarly, Sudan—limited by high levels of public debt and lack of access to external financing—reduced its non-oil deficit by more than 6 percentage points of non-oil GDP.

Figure A.1.1
Oil Sector Hit by the Global Crisis; Non-Oil Sector Buoyed by Stimulus

(Real GDP growth; percent)



Sources: National authorities; and IMF staff estimates.

Non-Oil-Sector Growth Holds Up, and External Conditions Improve

The non-oil sector continued to grow in 2009, although at an appreciably lower rate of 3.6 percent relative to the 5.4 percent rate registered in 2008. Countercyclical policy was instrumental in buoying non-oil activity in several countries. In addition to the sizable stimulus provided in Gulf Cooperation Council (GCC) countries, in Algeria non-oil GDP growth

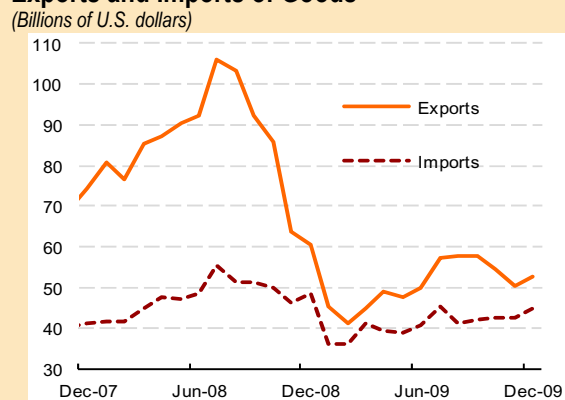
accelerated—from 5.9 percent to 9.2 percent between 2008 and 2009—on the strength of the large public investment program. For the region as a whole, the net result of sizable shocks to the oil sector mitigated by countercyclical policy was a deceleration in overall economic activity by almost 2 percentage points, to 1.5 percent growth.

External conditions began to improve during the second half of 2009. First, after bottoming out at US\$34 per barrel in late 2008, oil prices recovered steadily and started to gain momentum mid-year, surpassing US\$70 per barrel in July 2009 and US\$80 per barrel in April 2010. Thus, export receipts began to recover, with positive balance-of-payments effects throughout the region (Figure A.1.2). Total exports of MENAP oil exporters grew by 28 percent between February and December of 2009.

With the recovery in oil prices, external financing conditions also improved, with a resumption of capital flows beginning in the second half of 2009, and major declines in sovereign spreads. Until late November 2009—immediately prior to the DW debt standstill announcement—credit default swap (CDS) spreads fell considerably from their mid-February peaks throughout the GCC, with reductions ranging from 627 basis points (bps) in Dubai to 208 bps in Oman (Figure A.1.3).

For the MENAP oil exporters as a whole, the rebound in capital flows in 2009 was concentrated

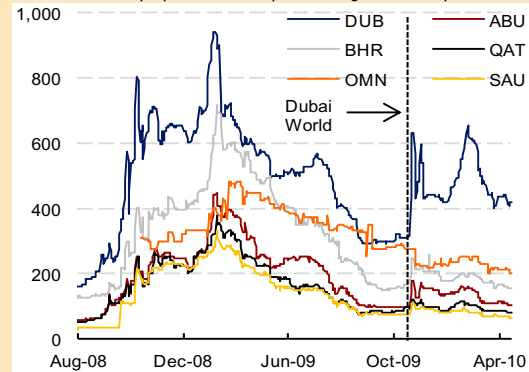
Figure A.1.2
Exports and Imports of Goods



Source: IMF, *Direction of Trade Statistics*.

Figure A.1.3
Financing Conditions before and after the Dubai World Crisis

(Credit default swap spreads; basis points; Aug 1, 2008–Apr 19, 2010)



Sources: Bloomberg; Markit.

in new bond issuance—reaching a record level of US\$28 billion for the year—about half of which was by sovereigns. On the other hand, bank loans remained subdued (Section A.3).

As a result of the improving external environment, many countries have begun rebuilding their stocks of international reserves (Figure A.1.4). Buildup of reserves relative to their lows since mid-2008 have been particularly large for Saudi Arabia (US\$27 billion), Algeria (US\$14 billion), and Libya (US\$11 billion). For the region as a whole, gross official reserves increased by US\$28 billion between July and November 2009.¹

The DW debt event in November 2009 created uncertainty in regional markets, interrupting the downward path of CDS spreads and a recovery in domestic stock markets (Box A.1.1). The impact was mostly felt in Dubai, with a jump in CDS spreads by 313 bps in five days and a 27 percent drop in the stock market in two weeks. Although the announcement of Abu Dhabi support in early December calmed markets temporarily, lingering uncertainty regarding the eventual terms of the debt restructuring roiled markets once again.

¹ Gross official reserves do not include the assets of sovereign wealth funds (SWFs).

Box A.1.1

The Dubai World Crisis

Starting in mid-2008, tight global financial conditions culminated in the reversal of real estate prices across the GCC. The correction was most pronounced in Dubai, where real estate prices had risen sharply, even relative to a number of global urban centers (Figure 1).

Pressures on Dubai’s highly leveraged, quasi-sovereign entities followed, compelling Dubai World (DW)—a holding company owned by the Government of Dubai—to seek a debt standstill in November 2009.

The standstill announcement was to affect US\$26 billion worth of loans and bonds, including a sukuk issued by Nakheel—a major property subsidiary of DW—in 2009 and maturing on December 14. Equally unanticipated, on that date, the Government of Abu Dhabi extended a loan to the Government of Dubai, which stated that it intended to use these resources to repay in full and on time the Nakheel 09, and cover payments to contractors, working capital, and interest expenses through end-April 2010, conditional on a standstill agreement being reached between DW and its creditors.

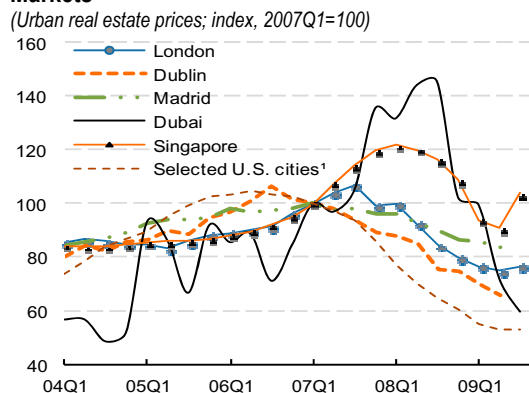
The DW event renewed downward pressure on the region’s stock markets, although CDS spreads for the rest of the region have been affected only marginally. Support provided by the Abu Dhabi government and a restructuring proposal announced in late March 2010 have helped calm markets, but uncertainties remain, as the government of Dubai is still developing a strategy to put its corporate sector on a viable path.

The Dubai stock market, after losing close to 30 percent of its mid-November value, has partially recovered, while other regional markets quickly rose to the pre-standstill levels. Similarly, a widening Dubai premium over CDS spreads in the other countries has become visible, reaching a maximum of 548 bps with respect to Saudi Arabia by mid-February. Market comovement between other GCC countries and Dubai, which had generally increased following the Lehman bankruptcy in September 2008, has fallen considerably since the Dubai event (Figure 2).

Sovereign spreads for non-GCC Middle Eastern countries have exhibited a pronounced and virtually uninterrupted downward trend since peaking in the last quarter of 2008, and the DW event only barely altered this path. Beyond the Middle East, there is no visible effect of the Dubai event so far.

Existing concerns regarding the legal enforceability of sukuk were brought to the fore. However, this market has not yet witnessed a sizable contraction attributable to the event; sukuk issuance in the MENA region had already declined from close to US\$10 billion per year in 2006–07 to US\$4.6 billion in 2008 and US\$3.8 billion in 2009, prior to the DW event. Up until early March 2010, issuance was broadly in line with that of the first quarter of 2009, at US\$900 million, all of which was by sovereigns. On the other hand, conventional bond issuance ceased following the event and only resumed in mid-March 2010.

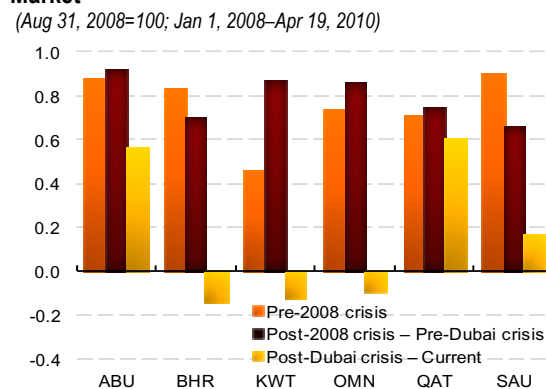
Figure 1
Downturn in Dubai Real Estate Compared with Other Markets



Sources: Dubai Land Department; Haver Analytics; Ministerio de Viviendas, Case/ Shiller; and IMF staff calculations.

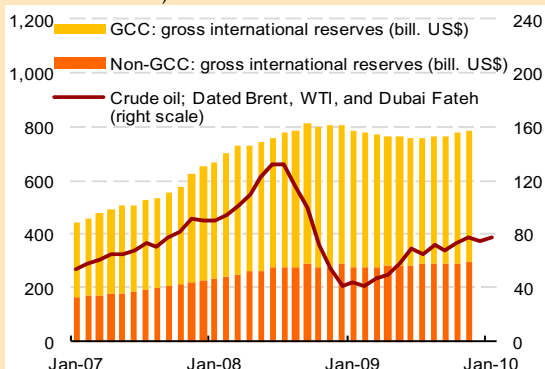
¹San Francisco, Los Angeles, San Diego, Miami, Tampa, Las Vegas, and Phoenix.

Figure 2
Stock Markets: Correlation Coefficients with Dubai Market



Source: Bloomberg.

Figure A.1.4
External Reserves and Crude Oil Prices
 (Billions of U.S. dollars)



Sources: National authorities; and IMF, *International Financial Statistics*.

In late March 2010, a restructuring proposal was announced, which combined support from the Government of Dubai with full repayment of US\$14.2 billion of debt. Markets reacted favorably; the Dubai sovereign CDS spread fell by 54 bps to 369 bps, and stock markets in both Dubai and Abu Dhabi ticked upward. For other GCC countries, the impact of the DW event was considerably smaller and relatively short-lived.

Although the impact of the DW debt event has been largely confined to Dubai, it is leading to a reassessment of the value of implicit government guarantees, and a test of the legal enforceability of Islamic financial instruments. The importance of greater transparency by both the corporate and government sectors has also been brought to the fore. In addition, the event is expected to lead to a reassessment of Dubai's development model.

While Dubai has achieved an impressive degree of diversification and become a major trading and services entrepôt, vulnerabilities associated with Dubai's highly leveraged property development has put into question the sustainability of such a model. At the regional level, the impact is likely to remain limited as Dubai's economy accounts for less than 10 percent of GCC GDP, and intra-GCC trade is less than 10 percent of total GCC trade.

Credit Growth Remains Sluggish

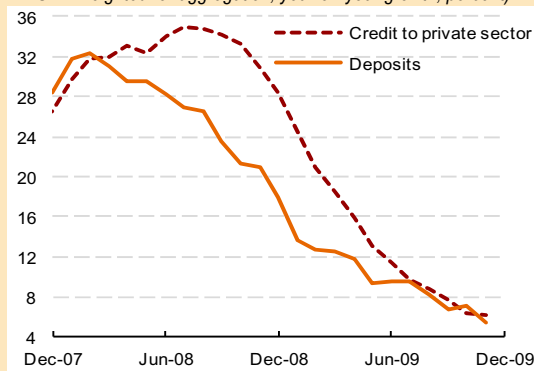
Of concern in many countries is the relative sluggishness of private-sector credit, a potential factor slowing the recovery in the non-oil private sector. Following an extended period of vigorous growth through mid-2008, credit has since slowed dramatically—by almost 30 percentage points on average by end-2009 (Figure A.1.5).

Although initially driven by a loss of funding as deposit growth and access to external borrowing tightened, evidence also indicates that demand for credit has weakened and banks' willingness to lend has waned, thus constraining credit growth even though funding has begun to recover.

Furthermore, uncertainties surrounding the economic recovery, the default of Saudi family-owned firms, problems in the Kuwaiti financial sector, and the DW debt have all contributed to an increase in risk aversion on the part of banks and borrowers. Finally, a discrete inward shift in credit supply may be the result of a change in banking culture in the region, as name lending is deemphasized (Section A.3).

Of course, not all countries have been affected by stagnant private-sector credit. In Algeria, credit growth did not decline to a large degree, and

Figure A.1.5
Credit and Deposits¹
 (PPP GDP weighted for aggregation; year-on-year growth, percent)



Sources: National authorities; and IMF, *International Financial Statistics*.

¹ Excludes Iran, Iraq, and Libya due to data limitations.

continued to grow at close to 20 percent annual rate in late 2009, despite policy measures to curb it. In Sudan, credit accelerated slightly in the first half of 2009 and subsequently settled at a 16 percent growth rate, owing in large part to the continued strength of deposit growth.

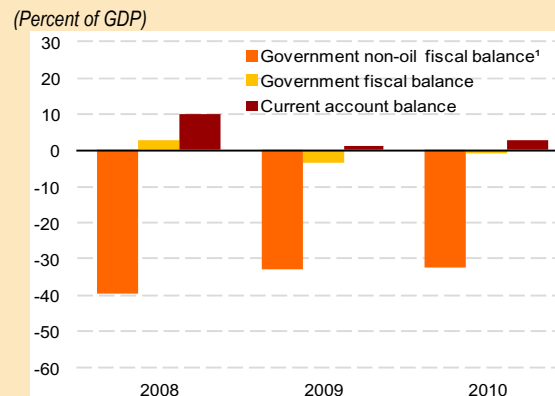
Brighter Prospects for Most in 2010 and Beyond

As external conditions improve, the outlook for 2010 points to continued recovery (Figures A.1.6 and A.1.7). The average oil price is expected to rebound by about 30 percent in 2010,² and foreign direct investment inflows are expected to approach their 2008 levels, at close to US\$80 billion. Spurred by the higher price and a recovery in production levels, oil exports are projected to increase by 31 percent, to US\$680 billion, well above 2007 levels. Consequently, oil GDP is estimated to grow at 4.3 percent, and the external current account surplus to more than double relative to 2009, to US\$140 billion.

Many MENAP oil exporters will expand fiscal spending in 2010. Although fiscal balances are projected to improve—from an overall deficit of 0.8 percent of GDP in 2009, to a 2.8 percent surplus—the non-oil fiscal deficit, as a percentage of non-oil GDP, is projected to rise by 2 percentage points on aggregate. Saudi Arabia is set to follow up the largest fiscal stimulus among G20 countries with another record spending package. Its non-oil deficit is projected to widen further by 6.2 percentage points of non-oil GDP in 2010 for an accumulated expansion of 11.5 percentage points for the two years. In addition to providing continued support for domestic non-oil-sector activity, this stimulus is expected to have positive spillover effects on neighboring MENAP countries via sustained trade and remittance flows.

² The *World Economic Outlook* baseline forecast for the average oil price in 2010 is US\$80 per barrel, compared with an average price of US\$61.78 for 2009.

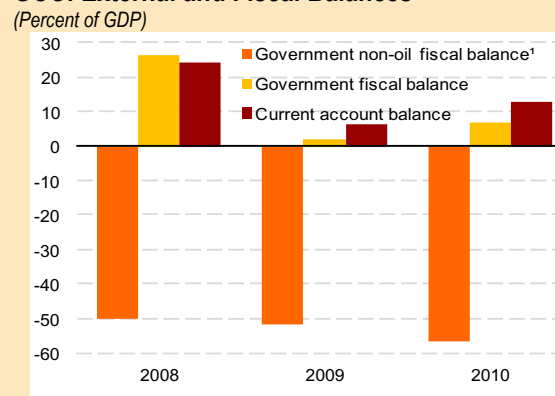
Figure A.1.6
Non-GCC: External and Fiscal Balances



Sources: National authorities; and IMF staff estimates.

¹ Percent of non-oil GDP.

Figure A.1.7
GCC: External and Fiscal Balances



Sources: National authorities; and IMF staff estimates.

¹ Percent of non-oil GDP.

However, as in 2009, some countries will not be able to increase fiscal expenditure, despite the partial rebound in oil prices. In Iran, prospects for 2010–11 are also uncertain due to the planned implementation of subsidies and energy-sector reform. In Sudan and Yemen, lack of fiscal room will limit the scope for spending to address key social and conflict-related challenges.

Fiscal expansions are expected to boost non-oil-sector activity, which should accelerate to 4.1 percent in 2010, and then to 4.6 percent in 2011. As a result, overall activity should recover to a growth of 4.3 percent in 2010, and solidify at 4.5 percent in 2011. Although these rates are well below precrisis levels, they are likely to be

sustainable in the long run. Fiscal and external current account balances should also continue to improve in 2010–11 on the strength of oil prices stabilizing above US\$80 per barrel.³

In countries where private-sector credit has decelerated most markedly, a recovery to normal growth rates will take time. Particularly where a credit boom preceded the current slowdown, historical patterns indicate that a protracted period of subpar credit growth is to be expected. As the macroeconomic environment improves, banks' funding and demand for credit should begin to recover, but heightened risk aversion may constrain credit growth in the foreseeable future (Section A.3)

Next Steps: Withdrawing Stimulus, Preserving Financial Stability

Fiscal stimulus, instrumental in sustaining non-oil activity in several countries during the 2009 downturn, is projected to continue into 2010, which will aid in solidifying the recovery. Beyond 2010, unwinding of the stimulus would be warranted, particularly in countries with high debt, and to avoid possible crowding-out effects in the medium term as private-sector activity gains momentum. Furthermore, if stimulus is to be effective, the quality of spending and the absorptive capacity of the economy should be assessed.

The pace of recovery in private-sector activity will depend on the availability of financing, both from external and domestic sources. On the external side, there are indications that capital flows—foreign direct investment in particular—are returning to the region. In the aftermath of the DW crisis, it is imperative that greater corporate and public-sector transparency be pursued in order to create an environment conducive to continued capital inflows.

³ The *World Economic Outlook* baseline forecast for the average oil price in 2011 is US\$83 per barrel.

On the domestic side of financing, policymakers will face a delicate balancing act in unwinding official support to the financial sector. Liquidity and capital injections have been effective in cushioning the slowdown in bank credit; their unwinding should begin once a recovery becomes evident. Given fixed exchange-rate regimes, domestic interest rates should begin rising again to preclude inflationary pressures as global interest rates begin to tighten. Although inflation remained subdued throughout most of 2009, it may begin to rebound as domestic demand recovers, commodity prices rise further, and real estate markets tighten (Figure A.1.8).

Similarly, policymakers will have to balance the goal of reactivating credit with the need to strengthen financial regulations and enhance supervision, particularly in countries where there is evidence that excessive risk-taking occurred during the precrisis period. A period of sluggish credit may be desirable to allow for the cleanup of bank balance sheets and to facilitate the modernization of business practices in the region's banking systems, whereby name lending is de-emphasized in favor of more conventional arm's-length relationships.

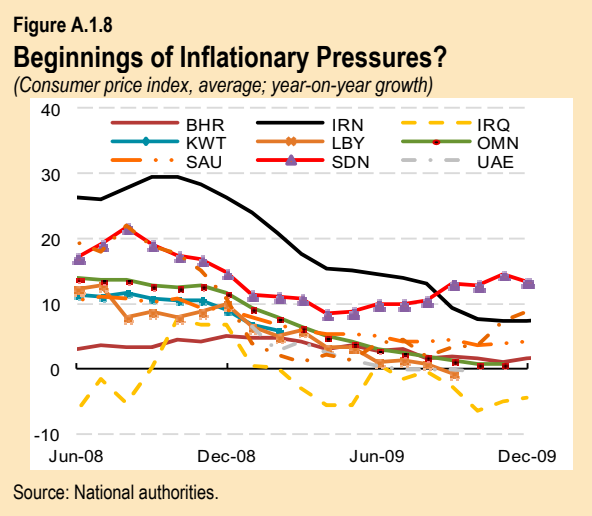


Table A.1.1. Selected Economic Indicators: MENAP Oil Exporters

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
Real GDP Growth	5.3	5.4	5.6	4.4	1.5	4.3	4.5
<i>(Annual change; percent)</i>							
Algeria	4.5	2.0	3.0	2.4	2.0	4.6	4.1
Bahrain	6.0	6.7	8.1	6.1	2.9	3.5	4.0
Iran, I.R. of	5.5	5.8	7.8	2.3	1.8	3.0	3.2
Iraq	...	6.2	1.5	9.5	4.2	7.3	7.9
Kuwait	7.7	5.1	2.5	6.4	-2.7	3.1	4.8
Libya	4.3	6.7	7.5	3.4	1.8	5.2	6.1
Oman	3.5	6.0	7.7	12.3	3.4	4.7	4.7
Qatar	9.0	15.0	13.7	15.8	9.0	18.5	14.3
Saudi Arabia	4.0	3.2	2.0	4.3	0.1	3.7	4.0
Sudan	6.4	11.3	10.2	6.8	4.5	5.5	6.0
United Arab Emirates	7.7	8.7	6.1	5.1	-0.7	1.3	3.1
Yemen	4.5	3.2	3.3	3.6	3.9	7.8	3.8
Consumer Price Inflation	6.0	6.8	9.9	15.5	7.3	6.6	6.5
<i>(Annual change; percent)</i>							
Algeria	2.3	2.3	3.6	4.9	5.7	5.5	5.2
Bahrain	0.7	2.0	3.3	3.5	2.8	2.4	2.0
Iran, I.R. of	13.5	11.9	18.4	25.4	10.3	8.5	10.0
Iraq	...	53.2	30.8	2.7	-2.8	5.1	5.0
Kuwait	1.7	3.1	5.5	10.5	4.7	4.5	4.0
Libya	-3.3	1.4	6.2	10.4	2.7	4.5	3.5
Oman	0.1	3.4	5.9	12.6	3.5	3.9	2.9
Qatar	3.5	11.8	13.8	15.0	-4.9	1.0	3.0
Saudi Arabia	-0.1	2.3	4.1	9.9	5.1	5.2	5.0
Sudan	7.6	7.2	8.0	14.3	11.3	10.0	9.0
United Arab Emirates	3.6	9.3	11.6	11.5	1.0	2.2	3.0
Yemen	11.6	10.8	7.9	19.0	3.7	9.3	8.4
Central Government Fiscal Balance	5.3	12.8	9.7	13.8	-0.8	2.8	4.6
<i>(Percent of GDP)</i>							
Algeria	6.6	13.5	4.4	8.1	-8.4	-5.3	-4.2
Bahrain	4.6	4.7	3.2	8.0	-7.3	-0.8	2.1
Iran, I.R. of	2.0	0.0	2.7	0.0	-2.7	-0.8	-0.5
Iraq ¹	...	15.5	9.7	1.7	-22.6	-19.1	-5.7
Kuwait	27.0	35.4	40.2	27.7	27.0	22.0	23.0
Libya	12.6	31.8	25.5	24.6	10.7	17.2	18.4
Oman	8.4	13.8	11.1	13.9	3.0	7.5	7.9
Qatar	8.8	9.1	12.8	11.5	12.9	10.5	15.2
Saudi Arabia	3.8	21.0	12.2	32.6	-4.6	1.9	6.0
Sudan	-0.6	-4.3	-5.4	-1.4	-4.7	-3.4	-4.5
United Arab Emirates ²	6.3	28.5	21.5	20.5	0.4	11.3	13.4
Yemen ¹	0.0	1.2	-7.2	-4.5	-10.2	-5.3	-5.1
Current Account Balance	12.1	23.4	19.6	19.6	3.4	7.8	10.0
<i>(Percent of GDP)</i>							
Algeria	14.0	24.7	22.8	20.2	0.3	2.5	3.4
Bahrain	5.0	13.8	15.8	10.6	4.1	5.5	5.7
Iran, I.R. of	5.2	9.2	11.9	7.2	2.4	2.3	1.7
Iraq	...	18.9	12.7	15.1	-19.4	-21.0	-5.5
Kuwait	27.8	49.8	44.7	40.8	25.8	31.6	32.6
Libya	20.9	44.6	40.7	40.7	16.9	24.5	25.6
Oman	9.4	15.4	6.2	9.1	0.3	2.4	3.2
Qatar	25.6	28.3	30.7	33.0	16.4	25.1	39.4
Saudi Arabia	13.6	27.8	24.3	27.9	5.5	9.1	10.8
Sudan	-9.5	-15.2	-12.5	-9.0	-12.9	-8.4	-8.5
United Arab Emirates	11.0	22.1	9.4	8.5	-3.1	7.8	7.6
Yemen	5.3	1.1	-7.0	-4.6	-10.7	-3.6	-5.6

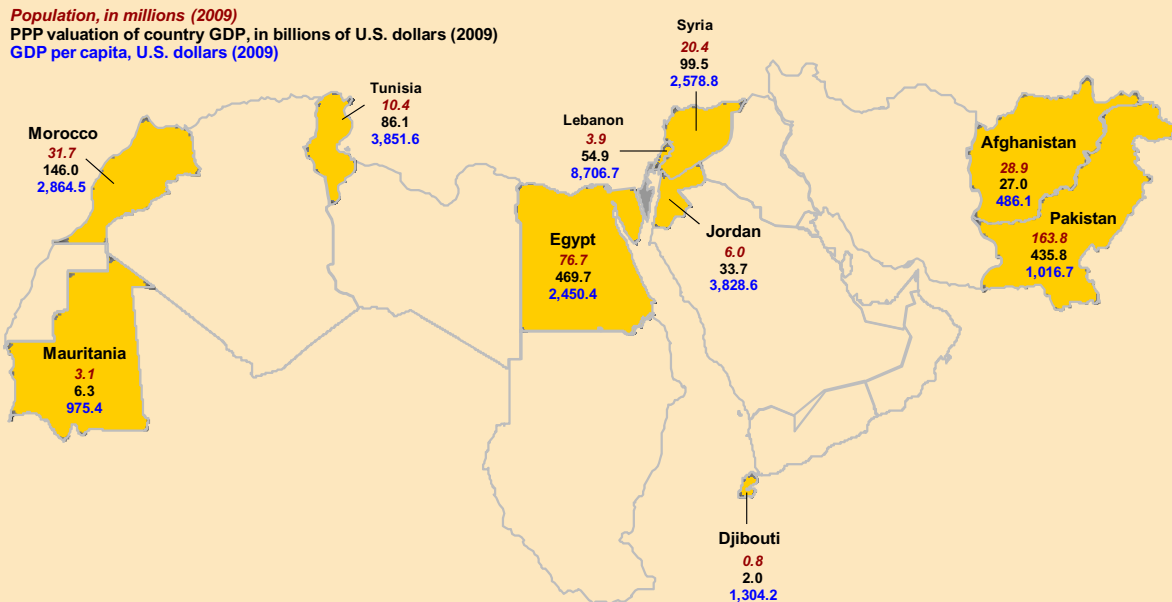
Sources: National authorities; and IMF staff estimates and projections.

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

A.2. MENAP Oil Importers: Slowly Gaining Traction

- *The MENAP oil importers are recovering from last year's slowdown. Trade is rising along with the global recovery and remittances are holding up well. Investment and bank credit growth, although still muted, are beginning to pick up.*
- *Notwithstanding these positive developments, growth will remain below precrisis levels in the next two years. Facing high debt in several countries, governments are beginning to cut back on fiscal expansion. Persistent weakness in EU demand, appreciated real exchange rates, and competition from other emerging markets will hamper prospects for export growth in the future.*
- *In this environment, unwinding crisis-related stimulus and proceeding with structural reforms to enhance the competitiveness of these economies will be key to raising growth and creating employment to absorb the large and expanding labor force. The authorities will want also to take steps to guard against a potential increase in nonperforming loans.*

MENAP Oil-Importing Countries



Sources: IMF, Regional Economic Outlook database; and Microsoft Map Land.

Note: The country names and borders on this map do not necessarily reflect the IMF's official position.

Growth Is Slowly Picking Up . . .

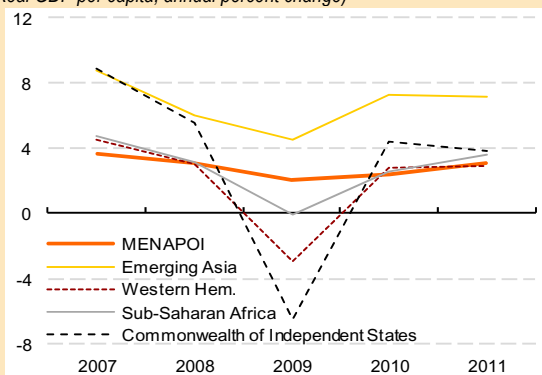
The region's economic recovery is gradually gaining traction. Conditions vary across countries, with projected growth rates for 2010 ranging from under 3½ percent in Morocco and Pakistan, to more than 8 percent in Afghanistan. However, the majority of countries are experiencing some pickup in growth.

Overall, the pickup has been relatively slow. Capital inflows have not been as quick to return as they have to other emerging markets, and investment has generally continued to fall relative to GDP. While limited financial and trade ties contained the immediate impact of the global financial crisis, this year's combined output growth of 4.1 percent is projected to be only slightly higher than in 2009. That level of growth puts the region at the low end among emerging and developing economies on a per capita basis and is insufficient to effectively absorb a rapidly increasing labor force (Figure A.2.1). But if the global recovery continues, the region's output growth could accelerate to nearly 5 percent in 2011.

The region's receipts from abroad are reviving along with the global recovery (Figure A.2.2). Tourism and remittances have been relatively resilient but goods exports and foreign direct investment were hard hit by the global crisis, and

Figure A.2.1
Lagging Growth

(Real GDP per capita; annual percent change)

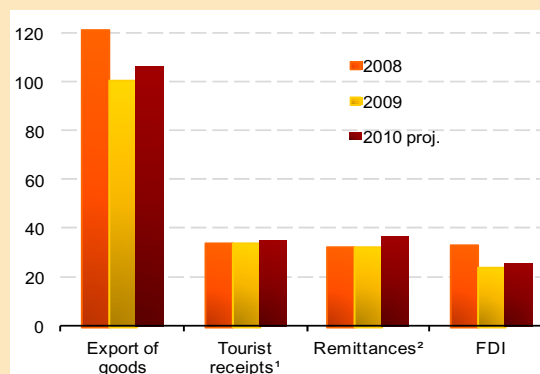


Source: IMF, *World Economic Outlook*.

Figure A.2.2

External Receipts on the Mend

(MENAP Oil Importers, billions of U.S. dollars)



Sources: IMF, *World Economic Outlook*; national authorities; and IMF staff estimates.

¹ Excludes Afghanistan and Djibouti.

² Excludes Afghanistan, Mauritania, and Pakistan.

pulled imports down in parallel. As the global recovery set in and commodity prices rebounded, the region's trade started to bounce back in mid-2009. With exports now growing faster than imports, the current account deficit is projected to narrow to 4.2 percent of GDP in 2010.

The rebound in the tradable sector is providing the basis for more broad-based increases in activity. Growth in credit to the private sector is starting to revive after having declined in nominal terms from a weighted average of almost 20 percent before the crisis to about 2 percent in the year to October 2009. Nevertheless, low credit growth—especially in Egypt, Jordan, and Pakistan—continues to be a drag on the recovery in most of the region (Section A.3).

. . . But Government Budgets Remain Under Pressure

The overall sluggish recovery is causing fiscal balances to deteriorate. Slow economic growth—and, in some cases, tax reductions—have cut into fiscal receipts, with the subregion's revenue as a share of GDP projected to fall by more than 1 percentage point in 2010. In addition, some countries—notably Jordan—also are receiving fewer external grants.

Given high debt levels in several countries, fiscal room in the region is generally tight (Figure A.2.3). Accordingly, most countries are restraining government expenditure. As a result, for the region as a whole, the fiscal deficit is projected to widen only modestly, to 6 percent of GDP in 2010. With countercyclical fiscal policy largely having run its course, most oil importers are projected to reduce their deficits and debt levels relative to GDP in 2011.

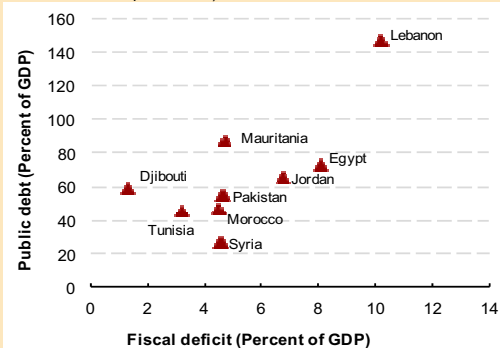
Financial Markets Are Recovering, But Capital Inflows Remain Low

Stock markets took an early lead out of the downturn, but have since advanced at a more moderate pace. Although quite small, most of the region's exchanges surged in 2009 and generally have outperformed the emerging market average (Figure A.2.4). One exception is Jordan, where stocks have remained subdued after the country experienced what was perhaps the steepest decline in economic growth among the MENAP oil importers. At the other end of the scale, Tunisia's stock market bucked the global downturn and is currently in record territory, on the back of efforts to diversify the financial sector and abundant liquidity in the economy. Tunisia aside, however, regional stock markets are still far from their precrisis peaks.

Inflows are reviving gradually, but the surge in capital flows to emerging markets since the first quarter of 2009 has mostly bypassed the MENAP oil importers (Section A.4). Corporate external borrowing fell steeply in 2009, to less than one-third of the average during 2006–08, and there has been almost no new international equity issuance. At the same time, despite declining interest spreads on foreign-currency debt (Figure A.2.5), governments have been hesitant to resume private borrowing abroad after markets froze in late 2008. An exception is Lebanon, which successfully placed several external bonds over the past year. In addition, Egypt has just recently completed its first external sovereign bond issue in more than two years. However, governments in the

Figure A.2.3
Fiscal Situation

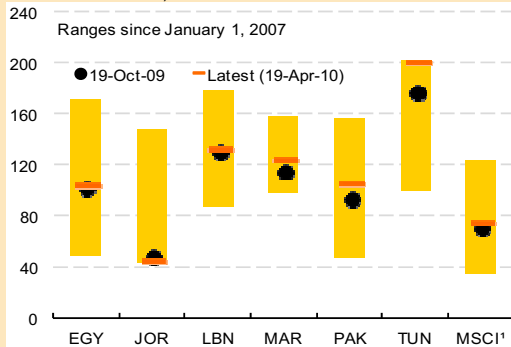
(Fiscal balance and public debt)



Sources: National authorities; and IMF staff estimates.

Figure A.2.4
Stock Markets Still Far from Peak

(Index; Jan 1, 2007=100)

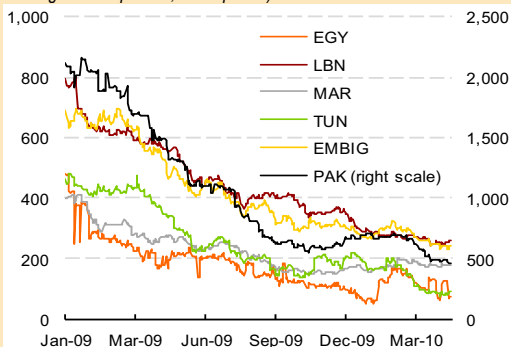


Source: Bloomberg.

¹ Morgan Stanley Capital International Index, emerging markets.

Figure A.2.5
Lower Risk Premiums

(Sovereign bond spreads; basis points)



Source: Bloomberg.

subregion are still relying mainly on domestic financing and, in some cases (Afghanistan, Djibouti, Mauritania, and Pakistan), official lending.

Interest rates in the region generally have stabilized in recent months and leave little space for additional monetary stimulus. The scope for lower policy rates has largely come to an end, given output near potential and relatively high inflation in much of the region, and interest rates beginning to rise abroad. With limited room to reduce policy rates, some countries have implemented unconventional measures aimed at stimulating credit. For example, Lebanon grants exemptions for banks' reserve requirements tied to local currency lending at reduced rates.

Competitiveness Remains the Overarching Challenge

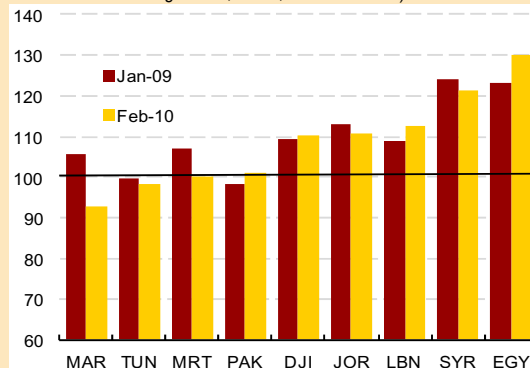
Most of the oil importers have seen their real exchange rates appreciate from precrisis levels. Apart from Pakistan, and to a lesser extent Morocco and Tunisia, currencies of countries in this group appreciated strongly in late 2008, along with a strengthening U.S. dollar. In addition, the oil importers had higher inflation than their trading partners in 2008—in the case of Egypt and Pakistan, by a margin of about 15 percentage points. While inflation has generally come down, and several of the currencies have depreciated since then, the real effective exchange rate remains appreciated relative to early 2008 in many of these countries (Figure A.2.6). Moreover, inflation remains relatively high in many cases—especially in Egypt and Pakistan, where it recently has edged up beyond 10 percent mainly as a result of higher food and energy prices.

A lagging performance relative to other emerging markets is not new. At 4.7 percent, the oil importers' average annual real GDP growth during the past decade, although higher than before, was some 1¼ percentage points lower than the average for emerging and developing economies. In per capita, terms, the shortfall was

Figure A.2.6

Real Exchange Rates Appreciated from Precrisis

(Real effective exchange rates; index; Jan 2008=100)



Source: IMF, Information Notice System.

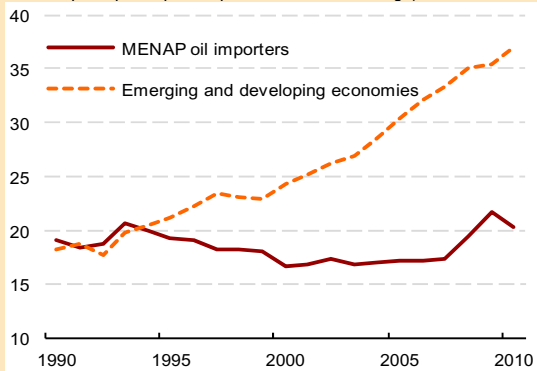
even larger, as population growth at almost 2 percent a year was more than 0.5 percentage points higher.

Moreover, in contrast to Asian emerging markets where exports have surged, the region's per capita exports have remained relatively low, at about 20 percent of the world average (Figure A.2.7). The region's exports did comparatively well during 2008–09—in large part reflecting its relative isolation from the global crisis—but these countries again are losing ground in 2010, as exports are rebounding more strongly in other emerging markets.

The shortfall in export performance compared with other emerging markets underlines the region's difficulty in keeping up with its competitors. One important obstacle has been a cumbersome business environment. While such measures are only indicative, this is reflected in international rankings of competitiveness. Many of the countries in the region tend to have low scores in these rankings, although Jordan and Tunisia are close to the average for emerging and developing economies (Figure A.2.8).

The need to improve the business environment has been well recognized, and the oil importers in the past few years have been among the most active reformers worldwide. Helped by a period of exceptionally strong global growth, these reform

Figure A.2.7
Lagging Trade Performance
(Non-oil exports per capita; in percent of world average)



Source: IMF, *World Economic Outlook*.

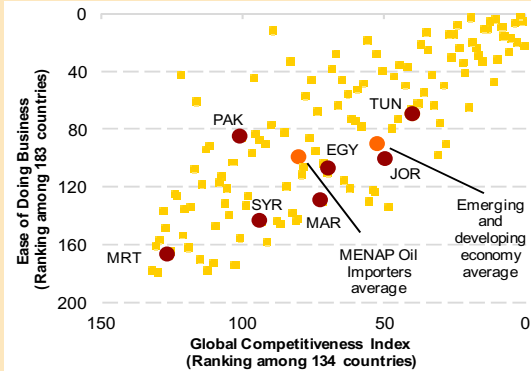
efforts have paid off with marked increases in foreign direct investment, exports, and output throughout the region, albeit from a low starting point. Nevertheless, most of the oil importers have some distance to go in promoting a more business-friendly environment in order to keep up with the more dynamic emerging markets.

Growth Slated to Remain Slow, and Unemployment Looms Large

Looking ahead, the oil importers risk an extended period of slow growth in their largest trading partners. Accounting for more than 40 percent of the region’s exports, EU imports are projected to grow, in real terms, by an average of 4 percent a year from 2011 and over the medium term. That figure is 1½ percentage points lower than the average during 2000–08 and reflects the relatively weak recovery expected in advanced economies. This deceleration, along with increased competition from other faster-growing emerging markets, suggests that the region’s economies will see less of a boost from higher exports in the medium term than they did before the crisis. Official development aid also may be less forthcoming.

Accommodating a fast-growing labor force will be a continuing challenge for the region’s

Figure A.2.8
A Challenging Competitive Environment
(Worldwide rankings, 2009/10, with 1 being the most competitive)

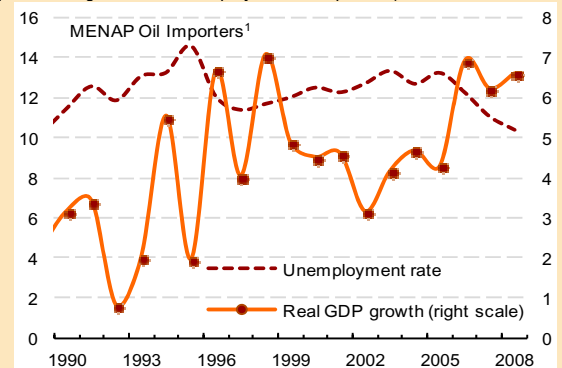


Sources: World Bank; and World Economic Forum.

Note: Regional averages weighted by GDP at purchasing power parity.

economies. Growing by close to 3 percent a year, the region’s working-age population has almost doubled since 1990, and many are struggling to find employment. Although economic growth increased over the past two decades, unemployment has stayed high, averaging about 12 percent and only falling slightly during 2006–08 (Figure A.2.9). Reducing unemployment in this environment will require major labor-market reforms and much higher economic growth rates.

Figure A.2.9
Unemployment Has Stayed High
(Real GDP growth and unemployment rate; percent)



Sources: National authorities; and IMF staff estimates.

¹Egypt, Jordan, Morocco, and Tunisia.

Centering Policy on the Medium-Term Growth Agenda

With the recovery well underway, authorities in the region can exit from countercyclical measures and instead take a longer-term perspective to addressing the region's challenges. Financial sector policy should focus increasingly on the regulatory environment, including to address a potential increase in nonperforming loans as the impact of the recent economic slowdown continues to permeate across sectors. Fiscal positions can, in many cases, be bolstered by improvements in revenue administration to enhance tax collection and the scaling back of costly and distorting subsidies. Syria's recent reform of its petroleum subsidies is a good example in this regard.

The region also will need to focus more on advancing structural reforms. A more business-friendly regulatory environment is needed with some urgency, given the authorities' objective to maintain high growth and reduce unemployment. Further opening of the financial sector and efforts to develop local capital markets would support this process and attract investment. Persistently high unemployment calls for more labor-market flexibility, less reliance on government jobs, and improvements in educational systems. By helping unleash the region's large labor potential, such measures also could help address the region's lagging external competitiveness.

Table A.2.1. Selected Economic Indicators: MENAP Oil Importers

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
Real GDP Growth	4.4	6.3	5.9	5.0	3.8	4.1	4.8
<i>(Annual change; percent)</i>							
Afghanistan, Rep. of	13.3	8.2	14.2	3.4	22.5	8.6	7.0
Djibouti	2.4	4.8	5.1	5.8	5.0	4.5	5.4
Egypt	4.0	6.8	7.1	7.2	4.7	5.0	5.5
Jordan	6.0	8.0	8.9	7.8	2.8	4.1	4.5
Lebanon	3.9	0.6	7.5	9.0	9.0	6.0	4.5
Mauritania	3.7	11.4	1.0	3.7	-1.1	4.6	5.2
Morocco	4.4	7.8	2.7	5.6	5.2	3.2	4.5
Pakistan	4.9	6.1	5.6	2.0	2.0	3.0	4.0
Syria	3.5	5.1	4.3	5.2	4.0	5.0	5.5
Tunisia	4.5	5.3	6.3	4.6	3.0	4.0	5.0
Consumer Price Inflation	4.0	7.1	6.9	15.9	10.0	8.9	6.4
<i>(Annual change; percent)</i>							
Afghanistan, Rep. of	10.3	7.2	8.6	30.5	-8.3	-1.5	5.0
Djibouti	2.1	3.5	5.0	12.0	1.7	3.0	4.0
Egypt	4.7	7.6	9.5	18.3	14.1	10.7	9.0
Jordan	2.1	6.3	5.4	14.9	-0.7	5.3	4.6
Lebanon	0.5	5.6	4.1	10.8	1.2	5.0	3.4
Mauritania	7.9	6.2	7.3	7.3	2.2	4.8	4.8
Morocco	1.5	3.3	2.0	3.9	1.0	2.0	2.6
Pakistan	5.0	7.9	7.6	20.3	13.6	11.8	6.3
Syria	2.7	10.4	4.7	15.2	2.5	5.0	5.0
Tunisia	2.6	4.5	3.1	5.0	3.7	4.2	3.5
Central Government Fiscal Balance	-4.7	-4.7	-4.9	-5.8	-5.5	-6.0	-5.4
<i>(Percent of GDP)</i>							
Afghanistan, Rep. of	-0.9	-2.9	-1.8	-3.7	-0.7	-1.4	-1.5
Djibouti	-1.8	-2.5	-2.6	1.3	-4.6	-1.3	-0.3
Egypt ¹	-6.4	-9.2	-7.5	-7.8	-7.0	-8.0	-7.6
Jordan	-3.1	-3.6	-5.8	-5.7	-8.9	-6.7	-6.2
Lebanon	-15.6	-10.4	-10.8	-9.7	-8.4	-10.2	-11.1
Mauritania ²	-7.2	35.8	-1.6	-6.5	-5.1	-4.6	-3.8
Morocco	-5.2	-1.8	0.3	1.5	-2.2	-4.4	-3.8
Pakistan ¹	-2.7	-3.7	-4.0	-7.3	-5.0	-4.6	-3.8
Syria ¹	-2.1	-1.1	-4.0	-2.8	-5.5	-4.5	-3.4
Tunisia	-2.6	4.3	-2.0	-0.5	-2.8	-3.1	-2.8
Current Account Balance	-0.4	-1.6	-2.4	-4.8	-4.5	-4.2	-4.0
<i>(Percent of GDP)</i>							
Afghanistan, Rep. of	-7.0	-4.9	0.9	-1.6	0.7	-1.7	-1.3
Djibouti	-2.4	-14.7	-24.9	-27.6	-17.3	-17.0	-16.3
Egypt	1.6	1.6	1.9	0.5	-2.4	-2.6	-2.1
Jordan	0.0	-11.6	-17.6	-10.3	-5.6	-8.9	-9.7
Lebanon	-15.5	-5.3	-6.8	-11.5	-11.1	-12.8	-12.8
Mauritania	-18.8	-1.3	-18.3	-15.7	-12.8	-7.5	-9.7
Morocco	2.2	2.2	-0.1	-5.2	-5.0	-5.0	-4.4
Pakistan	1.6	-3.9	-4.8	-8.4	-5.6	-3.8	-4.0
Syria	-1.3	-1.8	-2.2	-3.6	-4.5	-4.0	-3.5
Tunisia	-3.3	-2.0	-2.6	-4.2	-3.4	-2.7	-3.0

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

¹General government.²Includes oil revenue transferred to the oil fund.

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A.3. Reviving Bank Credit in MENA

MENA countries are currently experiencing a pronounced slowdown in bank credit, after several years of very rapid growth in the run-up to the global crisis. Policies for reviving credit—shortening the slowdown—will involve actions to shore up bank funding, and to improve transparency and communication on the path of future monetary and regulatory policies. However, the revival in credit will necessarily be gradual, as it will also be influenced by the pace of overall economic recovery.

Key Policy Issue: The Sharp Credit Slowdown

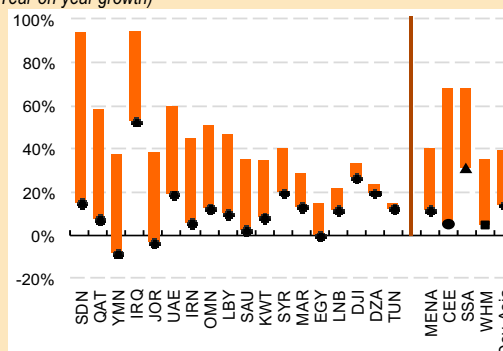
As in other regions in the world, bank credit in the MENA region recently has experienced a marked turnaround. After accelerating to peak annual growth rates ranging from about 20 percent (Lebanon) to almost 100 percent (Sudan) before the global crisis, credit has decelerated sharply, by an average of nearly 30 percentage points, with several countries experiencing declines of more than 40 percentage points (Figure A.3.1).

Continued sluggishness of bank credit can have serious consequences for economic activity. To the extent that credit is constrained on the supply side, sectors, firms, and households that are particularly dependent on bank financing are either forced to scale back their consumption and investment plans or resort to alternative sources of funding, thus creating a drag on economic recovery.

In the longer run, slow credit growth will delay financial deepening, in turn limiting the growth potential of the economy. Furthermore, for oil-exporting countries, spending cutbacks tend to fall disproportionately on the non-oil private sector, for which alternative sources of funding are scarce, thereby inhibiting the process of economic diversification.

Therefore, MENA policymakers are justly concerned regarding the causes of the credit slowdown and what actions they might take to spur a recovery in credit. In this region, the causes have—by differing degrees—spanned both demand and supply factors. On the supply side, banks were subjected to two types of shocks:

Figure A.3.1
Recent Declines in Credit Growth
(Year-on-year growth)



Sources: IMF, *International Financial Statistics (IFS)*; and IMF staff calculations.

Note: High point of the arrow is the largest year-on-year growth rate of nominal credit to the private sector since 2006Q1. Low point is the last available data in *IFS*. Countries are ordered by largest to smallest decline.

CEE = Central and Eastern Europe; SSA = Sub-Saharan Africa; and WHM = Western Hemisphere.

- (1) an intense cutback in funding, as domestic deposit growth slowed sharply and, in some cases, external borrowing for banks was curtailed; and
- (2) increased strains on their balance sheets, as profitability fell and nonperforming loans rose.

On the other hand, the economic downturn depressed credit demand and raised uncertainty about future investment prospects, thus heightening risk aversion among both banks and prospective borrowers. Finally, as a result of shocks specific to the region—the failure of Saudi conglomerates, the Dubai crisis, and the difficulties surrounding investment companies in Kuwait—the credit culture may be undergoing a shift away from name lending toward an approach based on accurate disclosure and appropriate risk management.

Future Policy Actions

- First, some policy actions already undertaken in many countries have proven effective, preventing an even more pronounced slowdown in credit. Among them, in addition to interest rate cuts, quantitative measures, such as reductions in reserve requirements, liquidity and capital injections, as well as direct government deposits into banks, have been used. In most countries, interest rate cuts have been exhausted. Withdrawal of quantitative measures should be delayed until a recovery in lending becomes visible, and in some cases there may even be scope for further actions, such as additional liquidity injections, or lowering reserve requirements.
- For countries in which banks' financial condition has been affected the most, actions to clean up balance sheets—recognizing losses and supplementing bank capital if needed—will be a prerequisite for any sustainable recovery in credit.
- An additional factor affecting credit supply is regulatory uncertainty surrounding actions taken in response to the crisis. Policy can temper the resulting risk aversion by increasing transparency and clearly communicating the future path of monetary and regulatory measures.
- To assist lending activity within an evolving credit culture, policy should promote greater corporate governance and disclosure.
- In the medium term, efforts to develop domestic bond markets should be pursued in order to provide viable alternatives to bank credit.
- Reviving credit will necessarily take time. Even as economic activity recovers—thereby lifting credit demand and reducing the uncertainty that may be weighing on banks' willingness to lend—credit recovery may lag, as past experiences indicate.

Stepping Back: The Recent Credit Cycle

During the precrisis years, MENA countries experienced high rates of credit growth, in many cases, credit booms. A standard methodology identifies credit booms as episodes during which credit is not only growing at a high rate, but also is surpassing its long-run trend by a “large enough” amount.¹ Studies of these types of episodes throughout the world have shown that booms are often associated with subsequent banking-sector distress, particularly when they are large and long-lasting, and when other macroeconomic imbalances, such as increasing inflation or expanding current account deficits, are also present.

Five countries are identified as having experienced credit booms in the years prior to the crisis: Jordan, Morocco, Qatar, Saudi Arabia, and the United Arab Emirates, with one other country, Iran, as a borderline case. Furthermore, the current above-trend credit growth also appears to have been a worldwide phenomenon. The average credit expansion in MENA, although larger than in Western Hemisphere (WHM) countries, was very similar to that of developing Asia, but noticeably smaller than that in Central and Eastern Europe (CEE).

¹ In the exercise reported here, the methodology identified credit booms as instances in which two thresholds were surpassed: (1) a relative threshold, by which the credit–GDP ratio exceeded a trend constructed by a rolling Hodrick–Prescott filter by more than 1.5 times the historical standard deviation, and (2) an absolute threshold, whereby the credit–GDP ratio increased by more than 5 percentage points in one year. These criteria are taken from similar cross-country studies of credit booms.

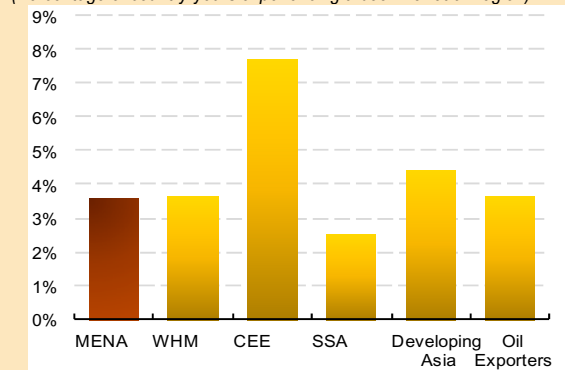
Credit Booms Are Not New, But Recent Experience Is Most Pronounced

MENA countries have had credit booms in the past as well, at a frequency similar to that observed in WHM and developing Asian countries, while somewhat lower than that of CEE countries (Figure A.3.2). Worldwide, the precrisis years stand out. From 2006–08, credit booms emerged to an unprecedented degree, making this 3-year period the highest concentration of such episodes over the past 25 years; in 2008 in particular, about 15 percent of all countries were experiencing booms. For MENA countries, the incidence of booms was slightly above this worldwide average, at 18 percent (Figure A.3.3).

Declining Deposits: A Major Driver

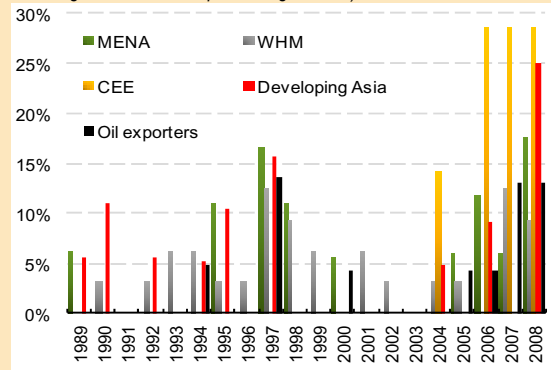
Examining banks' balance sheets from the precrisis expansion (2004Q4–2008Q2) to the postcrisis slowdown period (2008Q2–most recent), the primary shock affecting most countries was a marked slowdown of deposits and capital, which severely constrained banks' ability to lend. Two contrasting country examples highlight the dynamics of these credit slowdowns. First, in the

Figure A.3.2
Frequency of Credit Booms Throughout the World, 1983–2008
(Percentage of country-years experiencing a boom for each region)



Sources: IMF, *International Financial Statistics*; and IMF staff calculations.

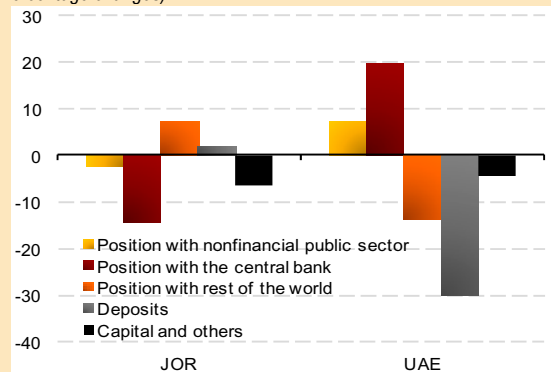
Figure A.3.3
Frequency of Credit Booms over Time
(Percentage of countries experiencing a boom)



Sources: IMF, *International Financial Statistics*; and IMF staff calculations.

United Arab Emirates, funding declined sharply. The slowdown in deposits and capital alone would have led credit growth to decline by more than 35 percentage points. Reinforcing this was a decline in external borrowing, accounting for an additional 14 percentage points. However, a combination of a fall in bank reserves (20 percentage points), and an increase in government deposits (7 percentage points), dampened the credit slowdown, which ultimately amounted to 22 percentage points (Figure A.3.4).

Figure A.3.4
Decomposition of the Credit Slowdown in Selected MENA Countries
(Percentage changes)



Sources: IMF, *International Financial Statistics*; and IMF staff calculations.

Note: This graph decomposes declines in private-sector credit growth from expansion to slowdown periods into movements in the four balance sheet accounts. A negative value indicates a contribution to the slowdown, whereas a positive denotes an offsetting effect, dampening the slowdown. The sum of the four components is equal to the change in the growth rate of nominal credit in the United Arab Emirates and real credit in Jordan.

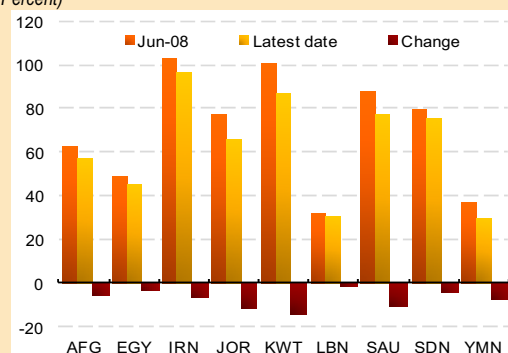
In Jordan, on the other hand, deposit growth actually accelerated between precrisis and postcrisis periods, which would have raised real credit growth by 2 percentage points. In addition, some banks were able to transfer funds from abroad (7 percentage points). Therefore, the decline in real credit growth between periods was primarily associated with a sizable increase in reserves with the central bank (slowing real credit by 14½ percentage points) and increased lending to the government (2½ percentage points).

As in the United Arab Emirates, banks' positions with the central bank frequently played an offsetting role, reflecting countercyclical monetary policy. Although the data cannot distinguish between voluntary and purely policy-induced changes, the analysis suggests that quantitative easing was used often and with substantial effects on private-sector credit growth. In addition, direct funding by the government provided visible relief to banks in Saudi Arabia, Syria, and the United Arab Emirates.

The effects of banks' positions with the rest of the world differed substantially across countries. As in the example of the United Arab Emirates, some countries experienced a decline in foreign borrowing, although of a much smaller magnitude than that in deposits. In other countries, such as Bahrain and Jordan, a drawdown of banks' foreign assets served to dampen the credit slowdown, whereas in Saudi Arabia, banks built up their foreign assets. Finally, banks in Qatar were able to dampen the slowdown both by drawing down foreign assets and by borrowing abroad.

It is difficult to disentangle demand from supply effects, but three factors seem to be at play. For many MENA countries, the loan-deposit ratio also fell from mid-2008 to late 2009, with declines ranging from 2 to 14 percentage points (Figure A.3.5). This could reflect (1) additional funding difficulties, such as in external borrowing; (2) lack of willingness to lend on the part of banking systems, because of increased macroeconomic or regulatory uncertainty postcrisis; or (3) sluggishness in demand for credit, also due to the weak macroeconomic environment.

Figure A.3.5
Loan-Deposit Ratios in Selected MENA Countries
(Percent)

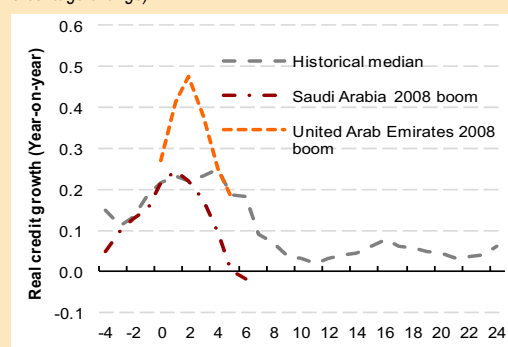


Sources: IMF, *International Financial Statistics*; and IMF staff calculations.

The Coming Years: Prolonged Sluggishness in Credit Not Unusual

In MENA countries, past booms have been followed by a pronounced slowdown, then prolonged sluggishness. The retrospective analysis of the 1983–2008 period uncovers this common pattern of behavior. From a median real growth rate of more than 20 percent, credit slows to close to zero growth within two years, followed by only 5 percent for at least three years (Figure A.3.6).

Figure A.3.6
MENA: Credit Behavior Surrounding Booms
(Percentage change)



Sources: IMF, *International Financial Statistics*; and IMF staff calculations.
Note: Unweighted average of real credit growth around boom years identified between 1983 and 2008. Credit was deflated by the CPI index. Boom year in shaded area.

Compared with this historical pattern, the current boom-bust cycle in the United Arab Emirates was considerably more pronounced on the upside—with a real annual growth rate of close to 50 percent at its peak—but then fell sharply to 4 percent. The bust in Saudi Arabia has been much more pronounced than the historical norm, with negative growth six quarters after reaching the peak. The current slowdown phase may also include a possible shift in the credit culture in the region, as banks de-emphasize name lending in favor of a more conventional and arm's-length approach to conducting business (Box A.3.1).

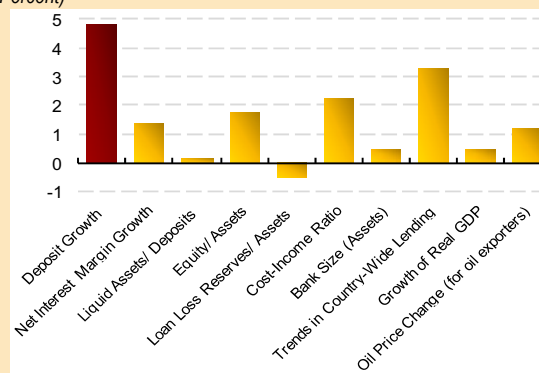
Revival in Credit Depends on Balance Sheet Improvements, Macroeconomic Recovery

Bank balance sheet strength and macroeconomic conditions play important roles in influencing credit growth. An analysis of individual bank behavior across a subset of MENA countries during the precrisis period uncovered several key determinants of bank lending, both on the supply and demand side, offering clues to preconditions that are needed for a revival of credit (Figure A.3.7).²

On the supply side, deposit growth is found to be the significant driver, followed by capitalization. Increasing loan loss provisions—indirectly reflecting worsening loan quality—can be expected to slow lending growth. Lending growth is also associated with higher overall costs, in response to which banks maintained higher interest margins.

Similarly, favorable macroeconomic conditions, reflecting both supply and demand factors, are

Figure A.3.7
Drivers of Lending Growth in MENA Banks
(Percent)



Sources: IMF, *International Financial Statistics*; and IMF staff calculations.
Note: This figure shows the estimated impact of moving from a low to a high value in each of the explanatory variables during credit growth. It is calculated as the change in the respective variable (from the 25th to the 75th percentile) times the estimated coefficient, and is based on panel regression on a sample of banks across 10 MENA countries during the 1997–2008 period.

found to spur bank lending. Real GDP growth and oil prices—in oil-exporting countries only, however—are associated with stronger lending activity.

The results therefore suggest that a revival of credit growth will require two interrelated conditions: bank balance sheets must improve, and the macroeconomic recovery, which in turn influences deposit growth, must take hold. The former implies that capitalization levels increase, asset quality recover, and profit margins be restored so that banks can embark on (relatively costly) lending activities. In oil-exporting countries, both supply and demand should respond favorably to the recovery in oil prices.

² This analysis uses panel data regressions of bank-specific credit growth using annual balance sheet and income statement data obtained from the BankScope database for large commercial, investment, and Islamic banks in Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and the United Arab Emirates during the 1997–2008 period.

Box A.3.1**Market Views on Bank Lending in the Middle East**

Phone interviews were conducted with a sample of leading financial sector analysts in the MENA region during February–March 2010, focusing on the causes of and possible solutions to bank credit slowdowns.

Both demand and supply factors were considered relevant. On the supply side, wholesale and foreign funding dried up abruptly in the wake of the global financial crisis in the GCC countries, and banks became highly risk averse, leading to private-sector deleveraging and companies running down their inventories. The evaporation of real estate demand and the impact of the global slowdown dented demand for bank credit. Some economists viewed the slowdown as entirely supply driven; although many firms were viable and project demand was available, banks were unwilling to lend. The problems surrounding the default of Saudi family-owned firms, the Kuwaiti financial sector, and the Dubai World (DW) crisis contributed to this behavior.

Although bank credit in the Maghreb and Mashreq countries also has suffered—with a few exceptions such as Lebanon—different factors were at play. Lebanese banks are liquid and are currently expanding private-sector credit, while private-sector lending in Jordan has been hit from declining export revenues and remittances. Syria has been relatively isolated, with the banks being predominantly state owned. In Egypt, most analysts attributed the weakness in credit to low demand as the economy recovers from the slowdown, although the potential for increased lending to government to crowd out the private sector was also identified by some.

The credit crunch in the GCC has affected commercial, foreign, and Islamic banks to varying degrees. Large foreign banks have suffered from lending concentration and have strongly withdrawn from the region, with some shifting their focus to wealth asset management and away from corporate lending. Islamic banks might have been less exposed to cross-border lending than commercial banks, but were engaged heavily in real estate lending, especially in the United Arab Emirates, and have seen soaring provisions as well.

There was a consensus that lending will continue to be sluggish in 2010, with a pickup likely in 2011, but views diverged on the way forward for name lending. Most participants expected a slow recovery owing to the DW uncertainty, lower leverage, and limited bank access to funding. Although name lending has been severely affected, most expected a slowdown rather than its complete disappearance. A stronger focus on disclosure, transparency, and risk management is expected as banks become more selective in their lending.

Different views surfaced regarding the effectiveness of government actions to stabilize credit. The majority of analysts argued that some actions such as reducing interest rates and reserve requirements, introducing deposit insurance, liquidity injections, and recapitalizations, have been effective. Others voiced their concerns on the lack of sufficient policy tools and the regulatory uncertainty. For instance, central banks lacked the ability to conduct open-market operations as well as interbank markets. Deposit insurance schemes were often implemented on an ad hoc basis, contributing to banks' regulatory uncertainty and reluctance to lend. The flow of information and transparency often has been poor, with mixed policy messages on liquidity injections followed by a tightening of lending standards.

The revival of bank credit was seen as a protracted process, and policy has limited short-term options to accelerate this process. Many argued that with the current lack of confidence among banks, borrowers, and the private sector, governments have limited additional policy levers besides maintaining macroeconomic stability and boosting demand. External spillovers would strongly influence the confidence of banks and borrowers. In addition, the lack of bank funding is a long-term issue that cannot be resolved with temporary liquidity injections. Some argued for strong structural measures such as a financial safety net and the implementation of market instruments.

There was a strong consensus that local currency bond markets could help reduce the reliance of the MENA region on bank funding, but many cautioned on the pitfalls along the way. Compared with other regions, bond financing is a very small proportion of overall funding and is relatively more expensive, so there is a large need and scope to introduce functioning local currency bond markets. At the same time, shortcomings in disclosures, adequate pricing of risks, institutional framework and regulation, needed to be addressed before these markets could develop effectively.

A.4. Capital Flows to the MENAP Region: Going Beyond Traditional Sources

Capital flows to the MENAP region fell sharply with the global financial crisis. So far, the recovery has been partial and generally weaker than in other emerging markets. Reviving inflows more broadly calls for efforts to make these countries more attractive to foreign capital and requires further diversification of the region's bank-based financial systems.

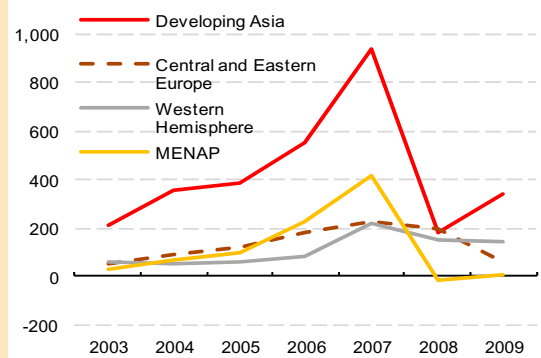
Adjusting to a New Environment for External Financing

The uneven recovery of international capital flows presents a challenge for the MENAP countries. Flows to the region increased rapidly in the run-up to the global financial crisis, but then fell sharply in 2008 (Figure A.4.1). The region's main sources of inflows in the past—bank financing for the oil exporters, and foreign direct investment (FDI) for the importers—remain subdued and are not set to recover quickly. Tapping into the rebound of inflows to emerging markets would help stimulate investment in the region at a time when local bank credit is tight. But doing so entails turning more to the areas where the rebound in global capital flows has been concentrated, in particular bond and equity markets, and transitioning away from the region's traditional model of bank-based financing.

Inflows to the Gulf countries have rebounded strongly since early 2009, driven by bond issuance mainly by Qatar and the United Arab Emirates. This has been facilitated by a vibrant energy sector and a base of large corporations that are well positioned to switch from bank to bond financing. Sovereign bond issuance is helping these countries develop capital markets and open the door for private-sector participation. The region will also benefit from greater transparency and disclosure.

The region's oil importers have largely been bypassed by the recent rebound in capital flows to emerging markets. Relying mainly on FDI, the oil importers have never been large recipients of international portfolio flows and stand out by the relatively small scale of their stock markets. Moreover, as a group, these countries have not

Figure A.4.1
Spike in Capital Flows
(Change in FDI, portfolio, and other investments; billions of U.S. dollars)



Source: IMF, *World Economic Outlook*.

seen much of a recovery of inflows since last year's fall. Given a subdued outlook for non-oil FDI, and few large companies with the ability to access international capital markets, inflows to the oil importers are likely to remain muted for some time. Nevertheless, policies to make these countries more attractive to international investment could accelerate the recovery and, over time, contribute importantly to economic growth.

Policy Agenda for Reviving Inflows

- Strengthening further international trade and finance links.
- Improving the business environment by streamlining regulations and ensuring a responsive public administration to increase the attractiveness of local enterprise and facilitate investment.

- Privatizing state-owned enterprises and promoting listing of stock. With bank credit lacking, equity markets are the main funding alternative for many firms. Governments can provide incentives for local family firms to list on the stock exchange.
- Developing bond markets. Sovereign bond issuance can help develop the yield curve, provide a benchmark for the pricing of other debt instruments, and enhance market liquidity. The success of government efforts to develop financial markets is predicated on ensuring effective oversight and a culture of transparency.
- Prioritizing strong macroeconomic fundamentals, especially in indebted countries, will help reduce risks, lower sovereign interest rate spreads, and raise demand for domestic assets. Sound fiscal stances would reduce credit risk associated with government paper and assist the development of other financial instruments.

From Boom to Bust

Prior to 2008, capital flows to the Middle East had risen particularly rapidly (Figure A.4.2). Coinciding with a period of rising oil prices and large current account surpluses, most of the inflows went to the region's oil exporters, in particular Saudi Arabia and the United Arab Emirates, and were mainly in

the form of financing from foreign banks. While governments accumulated large reserves, local banks and corporations were borrowing heavily abroad. Consequently, inflows to these countries rose alongside an even larger increase in their investments abroad. By 2007, signs of overheating emerged, with inflation rising toward double digits in several Gulf states, and speculation in currency appreciation adding to inflows.

Compared to the oil exporters, investment into the oil importers increased only moderately. Supported by wide-ranging privatization programs, capital flows to this group of countries have mainly been in the form of FDI. Other types of inflows were smaller and did not rise as much as in other emerging markets, with the oil importers generally staying on the sidelines.

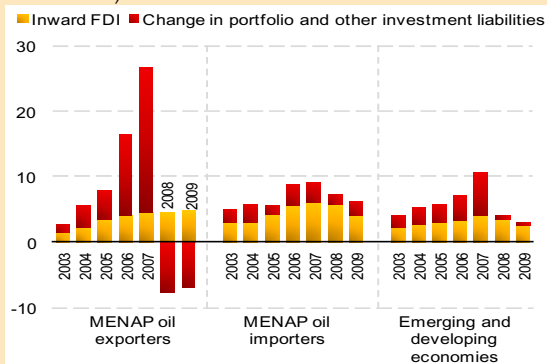
Inflows fell sharply in 2008 with the global financial crisis. Within the region, the oil exporters experienced by far the largest drop, in line with the sharper run-up of inflows to these countries. As investors reduced their positions, the stock of foreign non-FDI investment in the oil exporters contracted by almost 8 percent of GDP, compared to an increase of more than 20 percent of GDP in 2007—a larger reversal than for the world's emerging and developing countries overall. FDI was much more resilient. It ultimately fell by just ½ of 1 percentage point of GDP compared to 2007, mainly on account of a 2 percentage-point drop for the oil importers, but remained at a higher share of GDP than the emerging and developing country average. On the whole, the impact on the economies of lower capital inflows was relatively modest for this region, with oil exporters able to buffer the shock by drawing down assets and providing large government stimulus that benefitted the oil importers as well.

Partial Rebound of Capital Flows

Financial flows started to revive in early 2009. Powered by low interest rates in advanced economies and improving growth prospects, portfolio flows to emerging markets started to

Figure A.4.2

Oil Exporters in the Midst of Capital Movements (Percent of GDP)



Source: IMF, *World Economic Outlook*.

recover strongly during the second quarter of 2009. Investment flows into MENAP as a group followed the renewed upward trend seen in emerging markets, although not to the point that inflows have become a widespread concern, and with inflows to most of the oil importers still subdued.

By end-2009, new issuance on international capital markets was back near earlier highs. Growing over the course of the year, the region’s total international issuance of bonds, loans, and equities reached US\$54 billion in 2009, not far below the 2005–08 average (Figure A.4.3). Bonds took the lead in 2009, with the US\$32 billion issued representing a record for the region and about 15 percent of emerging markets’ total bond issuance—more than the region’s approximate 11 percent share in emerging-market GDP.

The rebound has not been widespread. Syndicated loan issuance, previously a mainstay in the region, has been relatively low—at US\$20 billion in 2009—and dominated by the United Arab Emirates. Equity issuance, although never of major significance in the MENAP countries, was even lower, at just US\$2 billion. As such, equities represented less than 5 percent of the region’s total issuance in 2009, a sharp contrast to other emerging markets, where the share of equities in total issuance rose to about 30 percent over the course of the year. Equally striking is the fact that the rebound has largely sidestepped the oil-importing countries. Together, the oil importers placed less than US\$5 billion of external bonds, loans, and equity in 2009—less than half of the average during 2005–08—and, of that amount, almost US\$3 billion was Lebanese bonds purchased primarily by Lebanese banks.

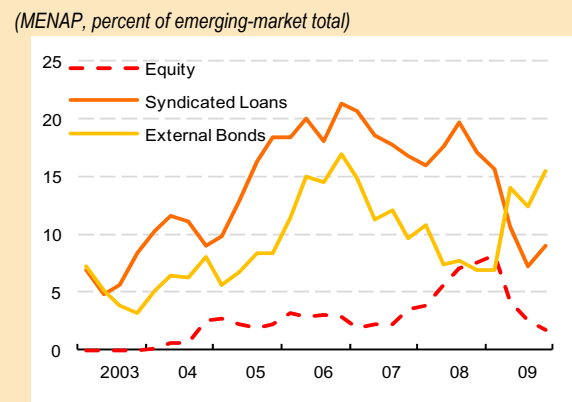
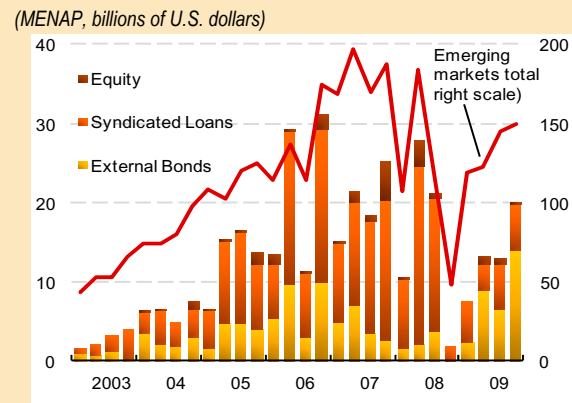
Bond Issuance Centered in the Gulf States

Qatar and the United Arab Emirates alone accounted for some 85 percent of the region’s total bond placement in 2009. Moreover, as sovereign debt issuance increased to almost

45 percent of the total, financial sector bond issuance (at less than 25 percent of the total) was only half its 2005–08 level. The remainder was mainly energy related and supported by a switch from loan to bond financing.

The greater concentration of financially solid oil-exporting and public-sector borrowers has been reflected in favorable terms of the new external bond issues. At over six years, the average maturity of MENAP countries’ new bond issuance has held up at almost twice the emerging-market average (Figure A.4.4). In addition, the average spread relative to the interest rate on government debt in the currency of issuance (mainly U.S. dollars) declined to less than 3 percent in the third quarter of 2009, although individual issuers generally faced higher spreads than in early 2008.

Figure A.4.3
Rebound in International Issuance

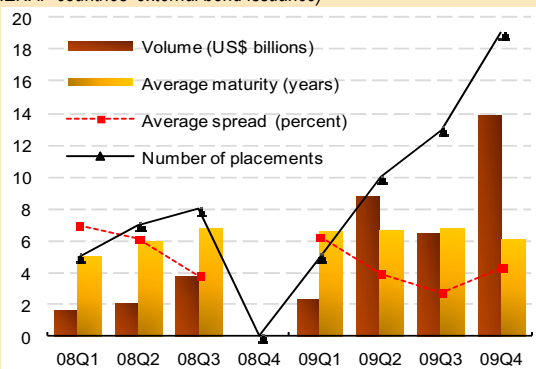


Source: Dealogic.

Figure A.4.4

Strong Bond Placement

(MENAP countries' external bond issuance)



Source: Dealogic.

The financial crisis has made capital markets more discerning, but conditions are normalizing. Bond financing, for a period, was essentially limited to the most creditworthy borrowers, and is still an option mainly for sovereigns or large corporations. At the same time, sovereigns in oil-importing countries, who previously had accessed international capital markets, have increasingly borrowed domestically for greater stability. This was made possible by ample liquidity in their home markets. Egypt's external sovereign bond issue in April 2010, its first since late 2007, points to a more balanced approach in the future and may open the way for more corporate bond issuance in the region's oil-importing countries.

The November 2009 announcement of a standstill on Dubai World's debt repayment created uncertainty for borrowers and lenders. This was evidenced by the absence of new conventional bond issuance from the Gulf countries up to mid-March 2010. However, with a number of placements since then, and more underway, this lull appears to have been temporary.

Bank Lending and Non-Oil FDI Remain Subdued

Bank credit remains tight. Borrowing from foreign banks, traditionally the main source of external financing for MENAP countries, has yet to recover

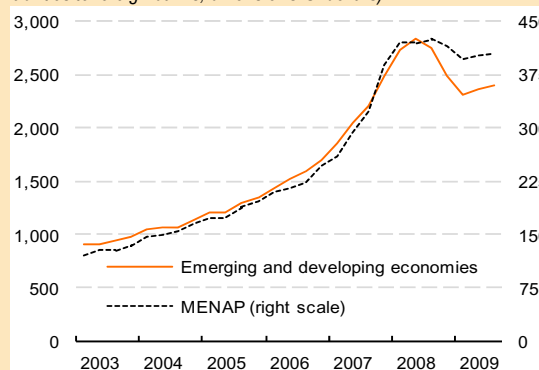
from the downturn in 2008. The decline in the region's stock of foreign loans was smaller than for emerging and developing economies as a whole (Figure A.4.5), in part reflecting the larger buffer in foreign assets. However, as elsewhere, the increase in foreign bank lending in the region in 2009 has been limited and is contributing to the slowdown in domestic credit extension. This tightness is of particular concern for the largely bank-based financial systems in the MENAP region, especially among the oil importers, where few companies issue bonds.

Direct investment has diverged between sectors, with FDI in the oil industry holding up, but elsewhere falling below precrisis levels. During the past decade, oil-importing countries benefited from particularly strong increases in FDI, which had reached an average of more than 5 percent of GDP in 2008 (Figure A.4.6). By then, privatization programs had largely tailed off and given way to greenfield investments. In line with other emerging markets, the subsequent drop in FDI was consequently a significant factor underlying the oil importers' drop in capital formation. FDI has held up better for the oil exporters, but with significant variation across countries. FDI flows to the United Arab Emirates fell from US\$14 billion in 2008 to US\$4 billion in 2009, as the country's construction and real estate boom came to an end. In contrast, Saudi Arabia's economy—less reliant on those sectors—witnessed a small increase in FDI inflows

Figure A.4.5

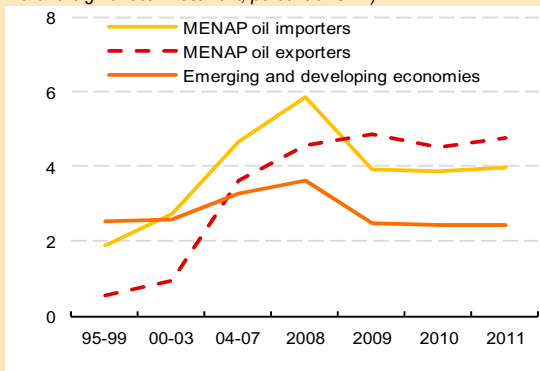
International Bank Lending Still Subdued

(Liabilities to foreign banks; billions of U.S. dollars)



Source: Bank for International Settlements.

Figure A.4.6

Diverging Patterns in FDI*(Inward foreign direct investment; percent of GDP)*Source: IMF, *World Economic Outlook*.

to US\$43 billion, mainly into the downstream petroleum industry.

Intraregional investment has fallen sharply. A good part of the MENAP countries' outward FDI—increasing from negligible amounts before 2004 to about US\$45 billion in 2007—was directed to other countries in the region. For example, intraregional mergers and acquisitions reached more than US\$7 billion in 2007; almost all involved GCC countries, and sovereign wealth funds (SWFs) and state-owned enterprises played a leading role. That trend reversed in 2009, as outward FDI dropped to less than US\$20 billion and intraregional mergers and acquisitions came to a near standstill during the first half of the year. This partly reflects growing home bias: the global financial crisis and resulting losses made SWFs more risk-averse and led countries to prioritize support for their own economies.

Gradual Normalization Ahead

For the period ahead, the ongoing global economic recovery suggests that capital flows will continue to expand. Lower interest rates in advanced economies than in other parts of the world are likely to support continued flows to emerging markets. Indeed, driven by interest rate differentials, a few countries within the region are beginning to see increasing bank deposits from

abroad or foreign purchases of treasury bills. In addition, high oil prices and widening current account surpluses in oil-exporting economies may lead to new momentum in intraregional investment. As their economies pick up, sovereigns in the oil-importing countries also will be more likely to reenter international markets.

Some core areas, such as bank lending and non-oil FDI, are likely to remain relatively slow. With banks still under pressure worldwide, the recovery in bank lending is likely to be protracted. Moreover, in line with the outlook for other emerging and developing economies, FDI in the oil importers is expected to remain below precrisis levels for at least another year. In general, given the fragile global recovery, investors are likely to continue to primarily target low-risk assets and to show a preference for bonds over other less liquid instruments.

Policy to Cautiously Attract Inflows

Higher capital flows are aiding the MENAP economies, and policymakers should aim to support the process. Recent inflows, although concentrated in the Gulf region, have helped provide much-needed stimulus in a period of low output growth. Continued reforms to strengthen and open the region's economies will make them more attractive to foreign capital and can thereby support the recovery. But adjusting to international investors' heightened preference for portfolio over other instruments also points to the benefits of developing local bond and equity markets.

Close monitoring of capital inflows is called for, alongside efforts to attract investment. In the current environment of surging capital flows to fast-growing economies, there is a risk of overheating and asset-price bubbles. At present, with bank credit still subdued, there is little to suggest that valuations in the region have become overstretched. However, the burst of Dubai's real estate bubble in 2008 highlights the danger associated with excessive capital inflows. Avoiding such downside risks requires strong financial sector regulation and careful monitoring.

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B.1. The Caucasus and Central Asia: Incipient Recovery

Substantial external shocks hit the Caucasus and Central Asia (CCA) region in 2009, but their impact on economic growth was cushioned by the policy response and donor support. For 2010, a recovery across the region is projected as the global economy, and in particular Russia, picks up speed.

For the energy exporters:

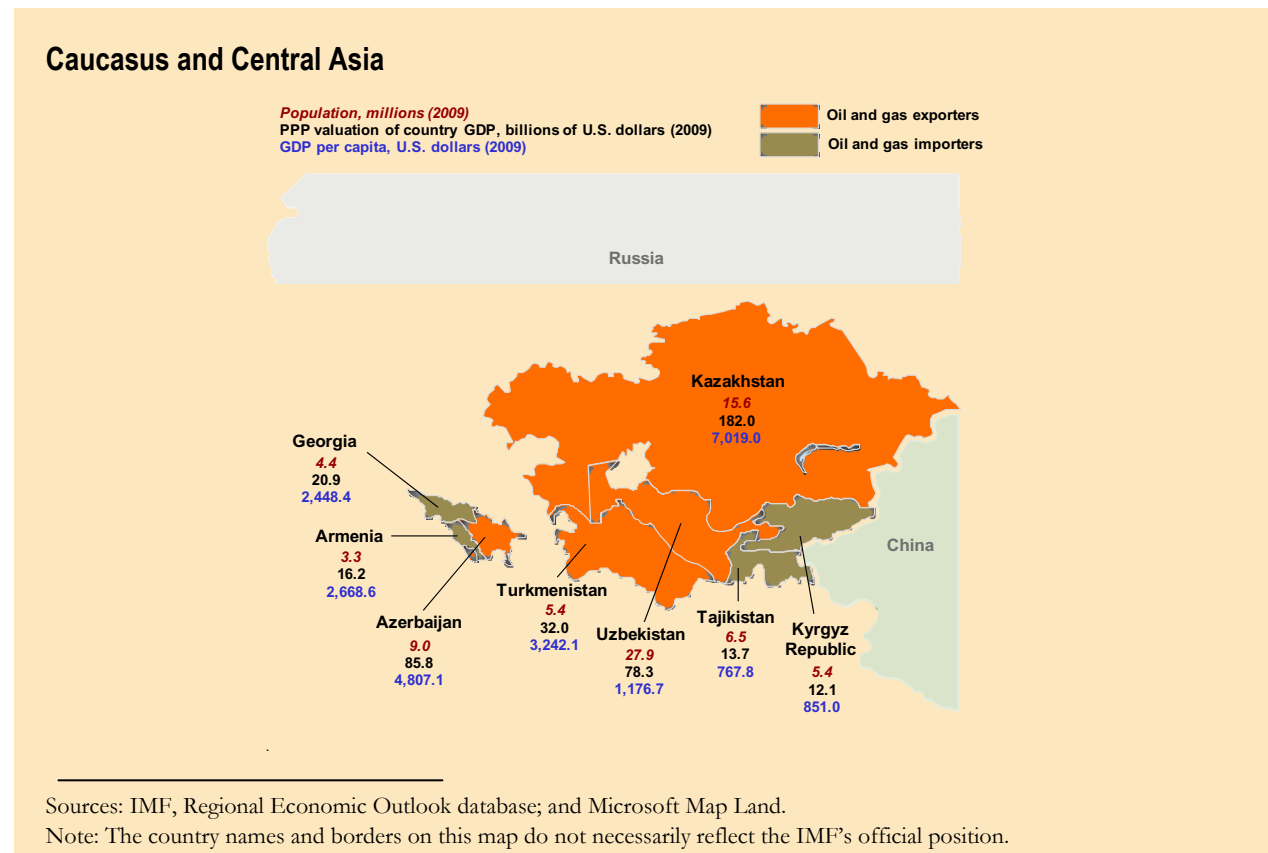
- Growth will be strongest in Turkmenistan and Uzbekistan, where governments should start exiting from their accommodative policies as growth gains traction. Kazakhstan is seeing a slower recovery, and will need continued policy support in 2010.
- Policies should turn to facilitating private-sector development and, in some countries, diversifying away from the hydrocarbon sector.

For the energy importers:

- Armenia, Georgia, and Tajikistan target a neutral or modest tightening fiscal stance in 2010, while the recovery has yet to gain firm traction. Fiscal constraints curtail governments' room to maneuver, and additional donor support would provide needed fiscal room. In the Kyrgyz Republic, the political events of April can be expected to weigh on the economic outlook.
- Over the medium term, the countries' large current account deficits need to be reined in to reduce external vulnerabilities.

Protracted political tensions are affecting energy trade and transport in Central Asia, and are thus holding back the region's growth potential.

Financial sector stress has built up during the crisis and constrains credit growth, which in turn weighs on the outlook for most CCA countries. Policies should aid banks with repairing their balance sheets.



Region Managed Well the Challenges Posed by External Shocks in 2009

As most countries around the world, the CCA region—and in particular the energy importers—was hit hard by external shocks in 2009. Exports of goods and services fell across the region, with Kazakhstan registering the sharpest decline of 37 percent, and Uzbekistan the most moderate of 3 percent. In addition, Armenia, Georgia, the Kyrgyz Republic, Tajikistan, and Uzbekistan saw remittance inflows, mainly from Russia, drop by up to a third. The turmoil in international financial markets affected Kazakhstan most markedly, which is more integrated with global financial markets—evidenced by a net outflow of US\$5 billion in private portfolio capital since the beginning of the crisis until end 2009—and to a lesser degree Armenia and Georgia.

The impact of these sizable external shocks on growth was cushioned by the policy response and donor support. Countercyclical fiscal and monetary policy helped moderate the impact of the external shocks. In the energy importers, donor support helped finance the fiscal stimulus, whereas the energy exporters relied on savings. Moreover, depreciating exchange rates against the U.S. dollar and the Russian ruble during the first

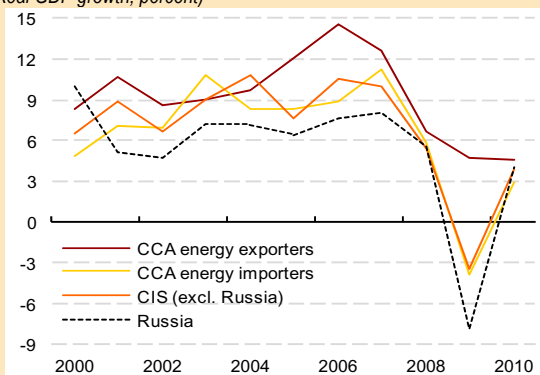
half of 2009 helped redirect demand toward domestic supplies, with imports of goods and services contracting in most CCA countries by 14–30 percent in 2009—the fall in imports also reflected lower oil prices.

Still, growth in the energy importers declined: Armenia saw the largest decline in growth to –14 percent and Georgia’s growth fell to –4 percent. In the Kyrgyz Republic and Tajikistan, growth remained positive in the range of 2 to 3 percent (Figure B.1.1 and Box B.1.1). Most CCA energy exporters fared even better. Helped by an increase in oil and gas sector output and significant fiscal expansions, growth in 2009 was only moderately lower than in 2008, but substantially lower than in 2007.

An Incipient Recovery

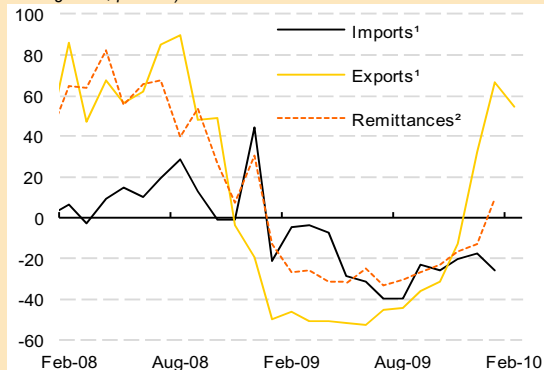
Recent developments point to an incipient recovery across the region. Exports started to pick up in most countries during the second half of 2009 (Figure B.1.2). Likewise, there is some evidence that the decline in remittances is slowing, or that they are increasing again during the first months of 2010, for example by 15 percent in Tajikistan. Capital inflows also have turned positive again, though they remain lower than

Figure B.1.1
Economic Growth to Recover from the Crisis
(Real GDP growth; percent)



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

Figure B.1.2
Signs of Recovery
(Annual growth; percent)



Source: National authorities.

¹Simple average for Armenia, Georgia, and Kazakhstan.

²Simple average for Georgia, Kyrgyz Republic, and Tajikistan.

before the crisis. However, these trends are far from uniform and, in a number of countries, stress in the banking sector is holding back credit growth and weighing on economic activity.

A downside risk to the growth outlook for Central Asia stems from a recent intensification of protracted political tensions that are affecting energy trade and transport. Looking ahead, enhanced cooperation in the areas of energy trade and water sharing would benefit the region's growth potential. In the Kyrgyz Republic, the domestic political developments in April could dampen growth compared to previous projections.¹

¹The projections for the Kyrgyz Republic in this chapter do not reflect the impact of these developments.

Policy Options as Recovery Takes Hold

Energy exporters should consider exiting from accommodative policies as growth gains traction. Turkmenistan and Uzbekistan are expected to grow by 12 and 8 percent, respectively, in 2010. In both countries, fiscal policy remains expansionary, and tighter policies would help prevent a buildup in inflationary pressures. In Azerbaijan, non-oil growth is expected to pick up, and the authorities target a narrowing of the non-oil deficit, given the scope to improve expenditure efficiency and the need to ensure medium-term fiscal sustainability. Growth in Kazakhstan is projected to be slower at slightly more than 2 percent, and the mildly

Box B.1.1

2009: Similar Shocks, Different Growth Outcomes

The CCA energy importers were hit by similar external shocks during 2009, yet their growth outcomes are very different, ranging from -14 percent in Armenia to 3 percent in Tajikistan. The sharp contraction in Armenia reflects the bursting of a construction boom, which had previously contributed to high growth rates. Net external demand provided only little offset. Georgia also suffered a contraction, but one that was less severe than in Armenia, partly because GDP growth had already slowed sharply in 2008 in the aftermath of the conflict with Russia. Moreover, while both Armenia and Georgia experienced roughly the same decline in domestic demand, net external demand provided a much bigger offset in Georgia. In the Kyrgyz Republic and Tajikistan, net external demand provided a welcome counterbalance to the contraction in domestic demand, resulting in positive but small growth. In addition, growth held up better in these two countries owing to their larger agriculture sectors, which seem to have been relatively insulated from the impact of the global crisis.

Table 1

Impact of the 2009 Crisis on Growth in CCA Energy Importers (Percent)

	ARM	GEO	KGZ	TJK
Cumulative growth, 2000.08	144.6	79.0	46.0	94.6
Growth, 2009	-14.4	-4.0	2.3	3.4
Exports of GNFS in percent of GDP, 2008	14.4	28.7	59.2	16.8
Percent change in exports of GNFS in 2009	-22.4	-15.9	-6.9	-5.5
Imports of GNFS in percent of GDP, 2008	39.4	58.3	92.5	72.1
Percent change in imports of GNFS in 2009	-22.3	-29.9	-22.5	-23.7
Contribution of net exports to growth in 2009	1.4	12.3	14.8	13.6
Remittance inflows in percent of GDP, 2008	9.7	7.8	29.4	49.4
Percent change in remittance inflows in 2009	-28.9	-16.0	-28.5	-33.4
Agriculture in percent of GDP in 2008	15.8	8.1	25.4	20.0

Sources: National authorities; and IMF staff calculations.

Note: GNFS = Goods and Non-Factor Services.

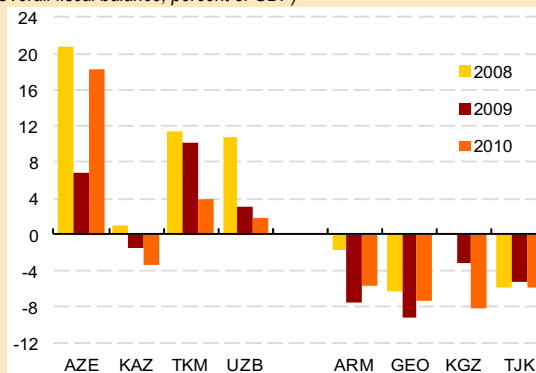
expansionary fiscal stance implied by the 2010 budget is appropriate.

A key challenge for CCA energy exporters over the medium term is to sustain growth and achieve sustained employment gains. In that regard, economic policies should be set so as to facilitate private-sector development and, in some countries, diversify away from the hydrocarbon sector. While oil and gas reserves are likely to last for at least 20 years and more, production is likely to level off or even decline. For example, in Azerbaijan, oil production is projected to start declining by 2014, so that the hydrocarbon sector would contribute negatively to overall GDP growth, and the non-hydrocarbon sector needs to become the engine of growth. Turkmenistan, on the other hand, has the fourth-largest reserves of natural gas in the world, and production volumes are expected to increase for some years to come. Similarly, Uzbekistan has a diversified export base, with oil and gas accounting for only one quarter of all exports. However, both countries have business environments that are less friendly than others in the region.

CCA energy importers have limited fiscal room and are mostly aiming for a neutral fiscal stance or modest fiscal adjustment in 2010. In Armenia and Georgia, overall fiscal deficits are likely to improve by up to 2 percent of GDP in 2010 (Figure B.1.3). In Tajikistan, the fiscal stance remains broadly neutral. In the Kyrgyz Republic, the recent political events are projected to weigh on revenue collection, but the government can draw on saved bilateral assistance to overcome any immediate stress on the budget.

With the recovery still nascent and growth likely to remain below the rates achieved prior to the global financial crisis, governments should stand ready to provide continued fiscal stimulus if the expected growth does not materialize. However, governments are running out of fiscal room, as donor support is expected to decline in most countries compared to 2009, and public debt as a percent of GDP has increased sharply (Figure B.14). As such, additional donor support

Figure B.1.3
Fiscal Policy Stance
(Overall fiscal balance; percent of GDP)

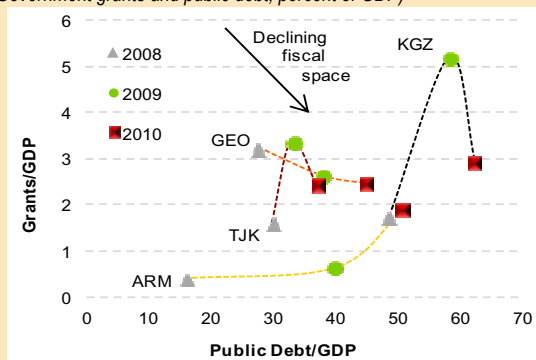


Sources: IMF, *World Economic Outlook*; national authorities; and IMF staff projections.

would provide room for countercyclical spending and public investment to enhance the region’s medium-term growth potential.

Current account deficits remain high in the CCA energy importers, ranging from 8–15 percent of GDP. While financing appears secured in the short term, such large deficits constitute external vulnerabilities. In Armenia and Georgia, foreign direct investment currently finances 50 percent or more of the countries’ current account deficits, and central banks are expected to accumulate gross reserves. Tajikistan can rely less on foreign direct investment but, like Armenia, benefits from donor support—including concessional lending—even if it is declining.

Figure B.1.4
Energy Importers Have Limited Fiscal Room
(Government grants and public debt; percent of GDP)



Sources: National authorities; and IMF staff projections.

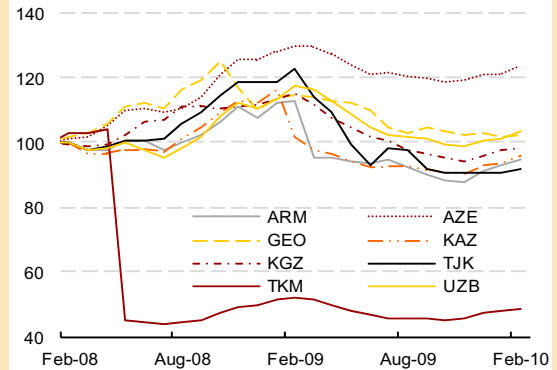
In all countries, external debt is increasing in percent of GDP. As the region recovers, policies should be set with a view to reducing current account deficits and containing external debt at sustainable levels.

Preserving Recent Competitiveness Gains

With rising international commodity prices, inflation could increase again in 2010, though inflation rates are projected to stay below 10 percent—similar to those in Russia, but higher than in advanced-economy trading partners (Figure B.1.5). Depending on the exchange-rate regime, these inflation differentials could lead to a reversal of competitiveness gains realized in some countries since early 2009, which would weigh on external demand as a driver of growth (Figure B.1.6). In this context, monetary and exchange-rate policy should preserve the welcome slowdown in inflation during 2009 and safeguard competitiveness.

Exchange-rate regimes differ across CCA countries and are changing. During the crisis, most countries abandoned their de facto exchange-rate pegs and allowed currencies to depreciate against the U.S. dollar and the Russian ruble. As of March 2010, Armenia and Georgia maintain a flexible exchange-rate regime, only

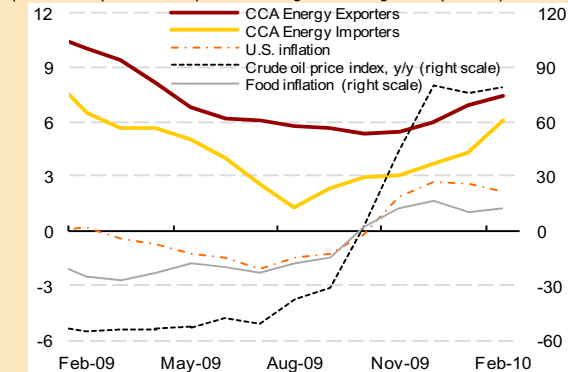
Figure B.1.6
Recent Gains in Competitiveness
(Real effective exchange rate, index, Jan 2008 = 100; upward movement indicates appreciation)



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

smoothing excess volatility, and nominal exchange rates have depreciated recently, which should help maintain competitiveness. Azerbaijan and Turkmenistan follow a de facto peg against the U.S. dollar, which has helped anchor inflation differentials, and competitiveness thus will depend on the U.S. dollar's movements against the exchange rates of these countries' trading partners. Kazakhstan has announced a move toward wider bands, which would allow the central bank to more effectively pursue domestic objectives while preserving competitiveness. Uzbekistan pursues a crawling exchange-rate depreciation in support of its export industries.

Figure B.1.5
Early Signs of Price Pressures?
(Consumer price index; period average; annual growth; percent)

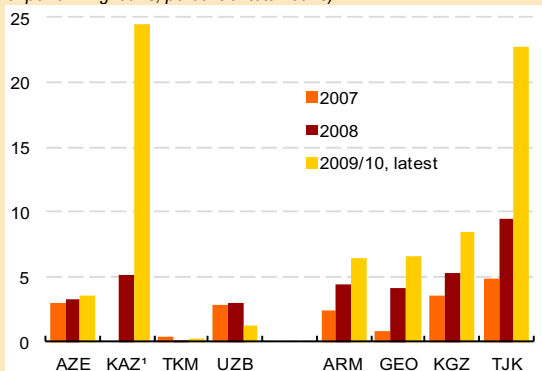


Sources: IMF, *World Economic Outlook*, and national authorities.

Credit Growth Has Slowed Substantially and Financial Sectors Are Under Stress

The global financial crisis has led to mounting stress in CCA banking systems, which has caused a sharp slowdown in private-sector credit (Section B.2). Stress arose from three sources. First, nonperforming loans increased as loan dollarization was high and unhedged borrowers were hit by depreciating exchange rates (Figure B.1.7). Second, banks saw a sharp reduction in funding—partially driven by lower

Figure B.1.7

Financial Sector Stress Building Up*(Nonperforming loans; percent of total loans)*

Source: National authorities.
¹90-day basis.

remittances—that had fueled strong credit growth during the precrisis years. Kazakhstan was particularly hard hit because of its reliance on external wholesale funding. And third, subdued confidence in a low-growth environment is holding back both credit demand and supply. With impaired balance sheets, lackluster funding growth, and weak confidence, credit to the economy has slumped. This is likely to weigh on growth.

Repairing bank balance sheets is the priority. In Kazakhstan, the authorities have made progress

toward resolving banking sector difficulties, including by injecting public capital into troubled banks and supporting key sectors of the economy to safeguard asset quality. As a result, confidence has strengthened, and interbank rates have declined. However, systemwide asset quality remains a concern, and a comprehensive assessment of on- and off-balance sheet risks is needed.

In other countries as well, policies should aid banks to repair their balance sheets as a prerequisite for a recovery of credit. This includes recognizing losses and dealing with nonperforming loans. In some cases, temporary government liquidity injections to overcome funding problems may help restore credit growth. Over the medium term, dedollarization would help reduce vulnerabilities emanating from currency mismatches that were a key transmission channel of the crisis. Successful episodes of dedollarization are mainly characterized by sustained periods of macroeconomic stability. In addition, developing local debt markets and implementing prudential regulations to ensure a proper pricing of currency risks, such as higher capital charges for foreign-exchange loans to unhedged borrowers, can facilitate the process of dedollarization (Section B.2).

Table B.1.1. Selected Economic Indicators: CCA

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
Real GDP Growth	9.4	13.6	12.4	6.5	3.5	4.3	4.7
<i>(Annual change; percent)</i>							
Armenia	11.2	13.2	13.7	6.8	-14.4	1.8	3.0
Azerbaijan	11.3	34.5	25.0	10.8	9.3	2.7	0.6
Georgia	6.4	9.4	12.3	2.3	-4.0	2.0	4.0
Kazakhstan	10.3	10.7	8.9	3.2	1.2	2.4	4.2
Kyrgyz Republic	4.1	3.1	8.5	8.4	2.3	4.6	5.3
Tajikistan	9.2	7.0	7.8	7.9	3.4	4.0	5.0
Turkmenistan	16.6	11.4	11.6	10.5	4.1	12.0	12.2
Uzbekistan	5.2	7.3	9.5	9.0	8.1	8.0	7.0
Consumer Price Inflation	9.7	9.3	11.4	16.5	6.2	6.9	6.4
<i>(Annual change; percent)</i>							
Armenia	2.6	2.9	4.4	9.0	3.4	6.8	5.2
Azerbaijan	4.1	8.4	16.6	20.8	1.5	4.7	3.5
Georgia	5.5	9.2	9.2	10.0	1.7	4.9	5.0
Kazakhstan	8.2	8.7	10.8	17.1	7.3	7.3	6.6
Kyrgyz Republic	6.5	5.6	10.2	24.5	6.8	8.4	7.6
Tajikistan	19.1	10.0	13.2	20.4	6.5	7.0	8.3
Turkmenistan	8.4	8.2	6.3	14.5	-2.7	5.0	5.4
Uzbekistan	18.0	14.2	12.3	12.7	14.1	9.2	9.4
Central Government Fiscal Balance	0.6	4.2	3.1	6.3	1.0	1.8	2.5
<i>(Percent of GDP)</i>							
Armenia	-2.6	-2.0	-2.3	-1.7	-7.6	-5.6	-5.0
Azerbaijan	0.2	-0.2	2.6	20.8	6.8	18.3	18.3
Georgia ¹	-1.1	-3.0	-4.7	-6.3	-9.2	-7.4	-5.5
Kazakhstan ¹	2.4	7.2	4.7	1.1	-1.5	-3.5	-2.8
Kyrgyz Republic ¹	-5.6	-2.1	-0.3	0.0	-3.1	-8.1	-7.7
Tajikistan ¹	-3.0	1.7	-6.2	-5.9	-5.3	-5.9	-4.2
Turkmenistan ²	1.0	5.3	3.9	11.3	10.1	3.8	4.9
Uzbekistan ¹	-0.6	5.2	5.1	10.7	3.1	1.7	3.6
Current Account Balance	-1.6	3.2	1.6	9.4	1.7	3.9	3.8
<i>(Percent of GDP)</i>							
Armenia	-6.4	-1.8	-6.4	-11.5	-13.8	-13.0	-12.6
Azerbaijan	-12.2	17.6	27.3	35.5	23.6	25.3	24.2
Georgia	-8.0	-15.1	-19.7	-22.7	-12.2	-14.2	-13.8
Kazakhstan	-1.4	-2.5	-7.9	4.6	-3.1	0.7	-0.2
Kyrgyz Republic	-0.1	-3.1	-0.2	-8.1	3.5	-15.4	-12.5
Tajikistan	-3.0	-2.8	-8.6	-7.7	-7.3	-8.0	-8.3
Turkmenistan	4.1	15.7	15.5	18.7	-9.7	-8.7	1.3
Uzbekistan	3.8	9.1	7.3	12.5	5.1	5.1	5.0

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

¹General government.²State government.

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B.2. CCA Banking Systems during and after the Crisis

As in other countries around the world, CCA banking systems were adversely affected by the global crisis, and credit growth has slowed sharply. Policymakers in many CCA countries have taken measures to address banking sector stress. This note discusses policy options for restoring credit growth and thus laying the foundation for a resumption of high and sustained economic growth.¹ In the short run, such options include aiding banks to repair balance sheets and providing liquidity injections under specific circumstances. In the medium term, policies should promote dedollarization and the development of local debt markets.

Policy Challenge: Restoring Credit Growth

Credit growth has slowed significantly across virtually all CCA countries, after a period of above-trend credit growth prior to the crisis (Figure B.2.1). As a direct and indirect result of the global financial crisis and sharp falls in remittances, banks have seen nonperforming loans (NPLs) rise and funding decline sharply. As such, banks are now focused on repairing balance sheets and are reluctant to extend new credit. While examples of creditless recoveries following a banking crisis exist—for example, the U.S. Great Depression—over the medium term, credit-financed investment is an important driver of high and sustained growth. Policymakers in the CCA—as in many other countries around the globe—are thus seeking to restore credit growth (Box B.2.1).

Understanding the ways through which the global crisis hit the CCA banking systems is important for getting the policy response right. In the CCA, three transmission channels were dominant:

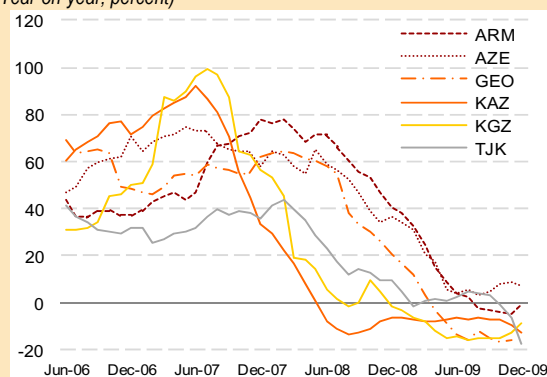
First, intense balance-of-payments pressures led to depreciation in several countries. With high levels of dollarization and exposure to currency risk, the depreciation contributed to a significant weakening of balance sheets of banks and unhedged borrowers. Second, the crisis subjected

¹ The note focuses on Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, and Tajikistan. Banking sectors in Uzbekistan and Turkmenistan exhibit very low levels of integration with international markets and, by and large, have not been impacted by the global crisis.

Figure B.2.1

Real Credit Growth¹

(Year-on-year, percent)



Sources: IMF, *International Financial Statistics*; and IMF staff estimates.

¹ Real credit, exchange-rate adjusted.

banks to a sharp reduction in funding—deposits, remittances, and external borrowing—which had been fueling rapid and above-trend credit growth in previous years. And third, the slowdown in economic activity may have resulted in a tightening of credit supply as well as a contraction in demand for credit due to heightened macroeconomic uncertainty.

What Can Policymakers Do?

- As countries recover from the crisis, improvements in macroeconomic conditions should spur a recovery in credit, both from the supply side—as funding sources reemerge and macroeconomic uncertainty declines—and from the demand side—as the economy begins to rebound and private agents are more willing to embark on investment projects. Therefore,

- fiscal and monetary policies to strengthen growth should help restore credit.
- To best leverage this automatic recovery, policies should, above all, aid banks in the process of repairing their balance sheets by recognizing losses and supplementing bank capital if needed.
 - Where banks are fundamentally healthy and mainly affected by a lack of funding, temporary government or central bank liquidity injections may help restore credit growth. Of course, adequate fiscal room is a precondition for such actions.
 - Over the medium term, policies should promote dedollarization to reduce vulnerabilities to sudden exchange-rate movements, and thus direct and indirect currency risks. Dedollarization would also enhance the effectiveness of monetary policy. Precrisis trends in CCA countries, as well as the international experience, have shown that macroeconomic stability is the most successful conduit for sustained dedollarization. In addition, the regulatory framework should encourage a proper pricing of currency risk, for example, by requiring higher capital charges for foreign exchange loans to unhedged borrowers,

Box B.2.1**IMF, EBRD, and National Bank of Georgia Conference Explores Ways to Revive Credit**

In April 2010, the International Monetary Fund (IMF) along with the European Bank for Reconstruction and Development (EBRD) and the National Bank of Georgia (NBG) hosted a conference in Tbilisi, Georgia, on Sustainable Credit Growth in the CCA and the EU's Eastern Neighbors. The event brought together private- and public-sector representatives from Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Moldova, Mongolia, Tajikistan, Turkey, Turkmenistan, and Ukraine, as well as academics and representatives from international financial institutions.

The conference's key findings were:

- Virtually all countries in the region experienced a boom-bust credit cycle. The sharp credit decline was seen to reflect shifts in both supply and demand. Factors such as global deleveraging, a sharp pronounced contraction in remittances, lower commodity prices, weak balance sheets, the tightening of credit standards, and the slowdown in economic activity were cited as being particularly relevant. Looking forward, most commercial banks' representatives expect a pickup in credit demand, but anticipated that credit growth would likely lag the recovery in economic activity, depending largely on the pace at which bank balance sheets were repaired.
- Conference participants discussed a range of options to revive credit in the short term, noting that the effectiveness of conventional monetary policy was limited due to weaknesses in the monetary transmission mechanism, related to the thinness of domestic capital markets, high levels of dollarization, and banks' heightened risk aversion. In contrast, participants thought that unconventional measures had helped maintain credit levels, including new central bank liquidity facilities, directed lending, and risk sharing through credit guarantees. However, some participants were concerned that these schemes could exacerbate vulnerabilities or weaken public sector balance sheets further. Participants also agreed that better use of credit bureaus and improved risk management capabilities in banks could help improve the financing for small and medium-sized enterprises.
- For the medium term, there was broad agreement on the need to avoid boom-bust cycles and achieve dedollarization. To prevent another unsustainable credit boom, conference participants recommended enhancing supervision, strengthening banks' risk management strategies to improve credit quality, developing foreign-exchange hedging instruments, as well as improving borrower education and debtor information. Participants also noted that dedollarization would be a gradual process, facilitated by macroeconomic stability, flexible exchange-rate regimes, deeper local currency markets, and prudential measures. Developing local currency markets would also provide a more stable funding base for credit.

thus addressing the indirect currency risk. In some countries, allowing greater exchange-rate flexibility also may help banks and the corporate and household sectors to better internalize the risks of dollarization.

- Developing local debt markets can contribute to dedollarization by giving domestic agents access to a wider range of domestic-currency financial instruments. Moreover, local debt markets allow banks to diversify their funding base and thus become less vulnerable to swings in individual funding sources.

Stepping Back: How Did We Get Here?²

Virtually all CCA countries experienced a rapid and prolonged expansion in credit, a credit boom, prior to 2008, in the sense that not only was credit growing at a high rate, but well beyond its historical trend. However, this process came to an abrupt end as the global financial crisis hit the region. Since end-2007, real credit growth has fallen sharply, by about 63 percentage points on average. The CCA credit cycle followed similar trends as that in the Baltics and other countries in the Commonwealth of Independent States.

Dollarization: An Important Transmission Channel of the Global Crisis

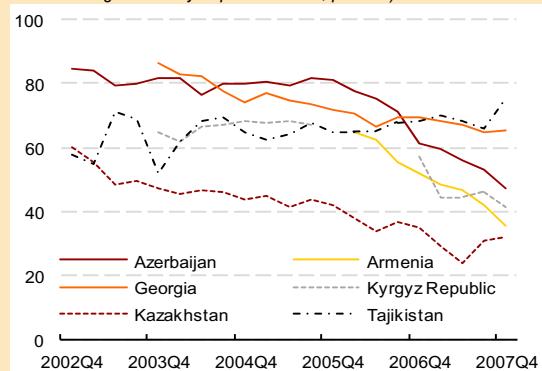
Historically, dollarization has been relatively high in many CCA countries. For example, during 2002–07 the average percentage of both deposits and loans denominated in foreign currency ranged from about 40 percent in Kazakhstan to about 80 percent in Georgia (Figure B.2.2). Also during this period, some CCA countries underwent a

visible dedollarization process, spurred by improving overall macroeconomic performance and stability, and by sustained and large currency appreciation in some countries (for example, Armenia and Georgia).

Going into the crisis, the dedollarization process in the CCA countries was still far from complete, making their banking systems vulnerable to possible sudden and large movements in the exchange rate. Two main types of vulnerabilities arose: (1) a direct currency risk arising from a mismatch between foreign-currency liabilities and assets—that is, banks with a negative (short) net foreign-currency position would suffer an immediate loss in the event of a currency depreciation;³ and (2) an indirect currency risk, resulting from lending in foreign currency to imperfectly hedged domestic borrowers. In this case, it is the mismatch on the part of borrowers that would result in an inability to repay their foreign-currency loans, and would ultimately weaken bank balance sheets through a deterioration of asset quality.

Immediately prior to the crisis, only Armenia's banks had a short net foreign-currency position

Figure B.2.2
Deposit Dollarization: 2002–07
(Share of foreign-currency deposits in total; percent)



Sources: National authorities; and IMF staff calculations.

² This section draws on Ilahi et al. (2010), *Credit Boom and Bust in Caucasus and Central Asia: Characteristics, Determinants, and Policy Lessons* (forthcoming).

³ Conversely, a positive net foreign currency position would leave the balance sheet vulnerable to a loss in the event of a currency appreciation.

and were therefore exposed to direct currency risk in the event of a depreciation. This short position was the result of a sharp increase in deposit dollarization in the run-up to the crisis, which banks were unable to match by extending foreign-currency loans before the depreciation occurred. The remaining countries, on the other hand, exhibited a long net foreign-currency position.

However, all six CCA countries, by virtue of substantial lending in foreign currency, were vulnerable to indirect currency risk (Figure B.2.3). This risk, of course, is also related to the extent to which bank borrowers—the nonfinancial private sector—receive income flows denominated in foreign currency. A comparison of foreign-currency loans with a measure of these income flows (the sum of exports and remittances), also indicates the precrisis exposure to indirect currency risk was substantial.

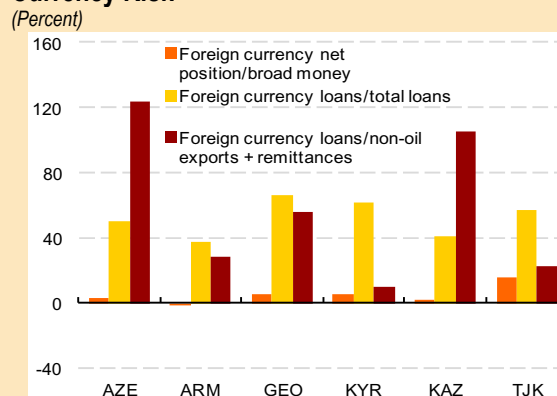
First, Balance Sheets Weakened Following Ruble Depreciation

Following the Russian ruble’s depreciation—by 55 percent against the U.S. dollar between late July 2008 and early February 2009—the CCA countries, except for Azerbaijan, also devalued their currencies, by about 25 percent in the case of Armenia, Kazakhstan, the Kyrgyz Republic, and Tajikistan, and by about 18 percent in Georgia.⁴ These depreciations—channeled primarily via exposures to indirect currency risk—along with the deterioration in overall economic activity weakened bank balance sheets (Figure B.2.4).

Most of the countries experienced reductions in their capital-asset ratios by more than 2 percentage points and increases in their NPL ratios by more than 4 percentage points. Kazakhstan and Tajikistan were particularly hard hit: the NPL ratio increased by 14–16 percentage points.

⁴ Depreciations are measured from their precrisis level to the most recent 2009 data.

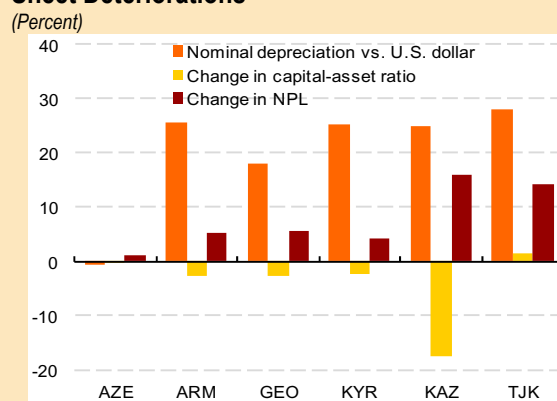
Figure B.2.3
Precrisis Exposure to Direct and Indirect Currency Risk



Sources: National authorities; IMF, *International Financial Statistics*; and IMF staff calculations.

Tajikistan, on the other hand, managed to escape an immediate decline in the aggregate capital-asset ratio, partly reflecting a large capital injection from an international financial institution in one domestic bank. In Azerbaijan, the exchange rate was maintained and therefore an immediate capital loss avoided, although an uptick in NPLs did occur.

Figure B.2.4
Effects of the Crisis: Depreciations and Balance Sheet Deteriorations



Sources: National authorities; IMF, *International Financial Statistics*; and IMF staff calculations.

Note: Depreciation is measured from precrisis to most recent 2009 data.

A Second Shock to CCA Banking Systems: Loss of Funding

The crisis also subjected banks to a significant slowdown in their funding, with an adverse impact on lending. A close examination of the dynamics of credit growth over the boom-bust cycle reveals that shocks to funding had an appreciable impact on credit growth fluctuations.⁵ Domestic deposits accounted for about 20 percent of short-run fluctuations of credit throughout the entire cycle, while external funding accounted for less than 5 percent.⁶ Thus, CCA's continued reliance on domestic deposits as the main source of funds—despite its increasing access to foreign savings since the beginning of this decade—may have dampened the credit bust.

Third, Slowdown in Economic Activity Contributed to Credit Contractions

Finally, in line with other countries' experience of economic downturns associated with credit contractions, evidence indicates that output movements strongly influenced credit in the CCA. This could reflect a tightening of credit supply in response to worsening macroeconomic conditions and subdued confidence, and a contraction in demand for credit, both of which have contributed to credit stagnation following the crisis, despite policy measures to revive it.

⁵ A fixed-effects VAR analysis of the dynamics of credit growth was undertaken for Armenia, Azerbaijan, Georgia, Kazakhstan, and the Kyrgyz Republic. It used quarterly data on credit, output, and funding (domestic deposits and external borrowing) from 2003Q1 to 2009Q3. Data on credit, deposits, and external borrowing have been adjusted for valuation effects due to exchange-rate changes.

⁶ Note that shocks to output accounted for about 30 percent of credit fluctuations, while own shocks to credit accounted for the remaining 40 percent of fluctuations.

Postcrisis Measures Face Crucial Trade-Offs

In response to the credit bust, many CCA countries undertook countercyclical monetary policies (Table B.2.1). Central banks aggressively lowered policy rates as well as required-reserve ratios, and introduced unconventional measures, such as direct liquidity support and enhancements to existing deposit insurance schemes. Although it is difficult to gauge the exact impact of these actions, it is notable that private-sector credit has remained sluggish, and lending interest rates have not fallen to the same extent as have policy rates. In fact, in some cases, lending rates increased, for example, by 78 basis points in Georgia and 232 basis points in Azerbaijan.

In addition, policies were also undertaken in several countries to reduce direct and indirect foreign-currency risks. These policy actions also serve to illustrate the trade-offs that may arise between mitigating risk and stimulating credit growth.

- In Kazakhstan, provisioning requirements were raised on foreign-currency loans to unhedged borrowers and on loans to offshore companies, with the likely effect of shortening the open position of banks and hence reducing indirect currency risk, but possibly at the expense of constraining credit growth.

Table B.2.1
Countercyclical Monetary Policies and Response of Lending Rates

	Policy Rate Response ¹ (basis points)	Reserve Requirements ¹		Liquidity Support / Credit ² (percent)	Lending Rate Response ¹ (basis points)
		Local Currency Deposits (basis points)	Foreign Currency Deposits (basis points)		
Armenia	-275	--	--	6.2	-35
Azerbaijan	-1300	-950	-950	14.3	232
Georgia	-700	-800	-800	11.4	78
Kazakhstan	-400	-450	-550	7.2	-110
Kyrgyz Republic	-1498	-50	-50	2.4	167
Tajikistan	-600	-200	-200	3.5	76

Source: National authorities; and IMF staff estimates.

¹ Calculated from precrisis peak in the policy rate to the end of 2009.

² Liquidity support in percent of outstanding credit at the start of the crisis.

- Similarly, in Armenia, a limit was imposed on net long open foreign-currency positions to reduce speculation and exchange-rate volatility. In addition, new regulations coming into effect in 2010 will increase loan-loss provisioning and capital requirements for foreign-currency loans. Both types of measures are likely to shorten the open position and limit indirect foreign-currency risk, but may constrain credit growth to the extent that banks have a preference for foreign-currency lending.
- In Georgia, the risk weight used to assess capital requirements for foreign currency lending, albeit still 50 percent higher than for domestic currency lending, was reduced, with the opposite effect—lengthening the open position and encouraging credit growth—but at the cost of greater exposure to indirect currency risk. However, the authorities have recently announced measures to encourage local currency lending, such as increasing the availability of refinancing instruments and enlarging the collateral base for use with them, introducing new remunerated standing facilities, and expending the reserve requirement to cover banks' external borrowing.
- In Azerbaijan, the deposit insurance limit was raised by five times (to nearly 8 times per capita GDP), which helped to reduce deposit outflows. Also, the Central Bank of Azerbaijan provided about US\$1.1 billion (2.6 percent of GDP) in liquidity support to banks, and another

US\$1.1 billion in government-guaranteed credit to the state-owned International Bank of Azerbaijan for on-lending to the state oil and aluminum companies, to help them stay current on financial obligations.

- In the Kyrgyz Republic, the National Bank of the Kyrgyz Republic established the Special Bank Refinancing Fund in part to provide liquidity support to banks. The authorities also advanced the launch of the Deposit Protection Agency and increased the level of deposits that is guaranteed to about US\$2000. This helped restore confidence in the banking sector and contributed to a sharp increase in the level of deposits by the end of 2009.
- In Tajikistan, provisioning for foreign-currency loans was tightened, and foreign-currency exposure limits were reduced with the view to minimize indirect foreign-currency risk, but potentially constraining credit growth.

As the CCA region emerges from the global crisis, priority should be given to banks repairing their balance sheets as the precondition for restoring sustainable credit growth. Moreover, CCA countries should seek to return to their precrisis paths of dedollarization by maintaining macroeconomic stability and supportive regulatory measures. In the short run, unconventional measures, including liquidity injections, as well as expansionary fiscal and monetary policies to support growth, also can help rekindle credit to the private sector.

Statistical Appendix

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

The following statistical appendix tables contain data for 30 MCD countries. Afghanistan and Iraq are included in the tables, but excluded from the country grouping averages in all the tables except Tables 2, 4, and 13–17. 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., 2009) refer to the fiscal year (July/June) ending in June of that year (e.g., June 2009). For Afghanistan and Iran, data for each year refer to the fiscal year (March 21/March 20) starting in March of that year. Data in Table 5 relate to the calendar year for all aggregates and countries, except for Iran, for which the Iranian calendar year—beginning on March 21—is used.

In Tables 3, 9, and 10, “oil” includes gas, which is also an important resource in several countries.

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

- Country group composites for the growth rates of monetary aggregates and exchange rates are weighted by GDP converted to U.S. dollars at market exchange rates (both GDP and exchange rates are averaged over the preceding three years) as a share of MCD or group GDP.
- Composites for other data relating to the domestic economy (Tables 1, 3, 5, and 8–12), whether growth rates or ratios, are weighted by GDP valued at purchasing power parities (PPPs) as a share of total MCD or group GDP.
- Composites relating to the external economy (Tables 16 and 18) are sums of individual country data after conversion to U.S. dollars at the average market exchange rates in the years indicated for balance of payments data and at end-of-year market exchange rates for debt denominated in U.S. dollars.

Tables 2, 4, 13–15, and 17 are sums of the individual country data.

Table 1. Real GDP Growth

(Annual change; percent)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	5.0	5.7	5.7	4.6	2.3	4.2	4.6
Oil exporters	5.3	5.4	5.6	4.4	1.5	4.3	4.5
Algeria	4.5	2.0	3.0	2.4	2.0	4.6	4.1
Bahrain	6.0	6.7	8.1	6.1	2.9	3.5	4.0
Iran, I.R. of	5.5	5.8	7.8	2.3	1.8	3.0	3.2
Iraq	...	6.2	1.5	9.5	4.2	7.3	7.9
Kuwait	7.7	5.1	2.5	6.4	-2.7	3.1	4.8
Libya	4.3	6.7	7.5	3.4	1.8	5.2	6.1
Oman	3.5	6.0	7.7	12.3	3.4	4.7	4.7
Qatar	9.0	15.0	13.7	15.8	9.0	18.5	14.3
Saudi Arabia	4.0	3.2	2.0	4.3	0.1	3.7	4.0
Sudan	6.4	11.3	10.2	6.8	4.5	5.5	6.0
United Arab Emirates	7.7	8.7	6.1	5.1	-0.7	1.3	3.1
Yemen	4.5	3.2	3.3	3.6	3.9	7.8	3.8
Oil importers	4.4	6.3	5.9	5.0	3.8	4.1	4.8
Afghanistan, Rep. of	13.3	8.2	14.2	3.4	22.5	8.6	7.0
Djibouti	2.4	4.8	5.1	5.8	5.0	4.5	5.4
Egypt	4.0	6.8	7.1	7.2	4.7	5.0	5.5
Jordan	6.0	8.0	8.9	7.8	2.8	4.1	4.5
Lebanon	3.9	0.6	7.5	9.0	9.0	6.0	4.5
Mauritania	3.7	11.4	1.0	3.7	-1.1	4.6	5.2
Morocco	4.4	7.8	2.7	5.6	5.2	3.2	4.5
Pakistan	4.9	6.1	5.6	2.0	2.0	3.0	4.0
Syria	3.5	5.1	4.3	5.2	4.0	5.0	5.5
Tunisia	4.5	5.3	6.3	4.6	3.0	4.0	5.0
CCA	9.4	13.6	12.4	6.5	3.5	4.3	4.7
Oil exporters	9.7	14.5	12.6	6.6	4.7	4.5	4.8
Azerbaijan	11.3	34.5	25.0	10.8	9.3	2.7	0.6
Kazakhstan	10.3	10.7	8.9	3.2	1.2	2.4	4.2
Turkmenistan	16.6	11.4	11.6	10.5	4.1	12.0	12.2
Uzbekistan	5.2	7.3	9.5	9.0	8.1	8.0	7.0
Oil importers	7.7	8.8	11.2	5.8	-3.9	2.9	4.2
Armenia	11.2	13.2	13.7	6.8	-14.4	1.8	3.0
Georgia	6.4	9.4	12.3	2.3	-4.0	2.0	4.0
Kyrgyz Republic	4.1	3.1	8.5	8.4	2.3	4.6	5.3
Tajikistan	9.2	7.0	7.8	7.9	3.4	4.0	5.0
<i>Memorandum</i>							
GCC	5.4	5.4	4.2	6.3	0.8	4.9	5.2
Maghreb	4.4	4.8	4.1	3.7	2.9	4.2	4.7
Mashreq	4.0	6.1	6.8	7.0	4.8	5.0	5.4

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

Table 2. Nominal GDP

(Billions of U.S. dollars)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	1,003.0	1,641.5	1,933.1	2,419.9	2,158.3	2,465.8	2,691.3
Oil exporters	700.6	1,227.9	1,452.7	1,841.7	1,545.7	1,791.6	1,950.9
Algeria	70.4	117.3	134.3	170.2	140.8	156.8	167.0
Bahrain	9.8	15.8	18.4	21.2	20.2	22.4	23.5
Iran, I.R. of	135.3	222.1	285.9	333.2	330.5	360.0	381.0
Iraq	28.6	45.1	57.0	86.5	65.8	80.3	92.8
Kuwait	49.8	101.6	111.8	158.2	111.3	135.1	146.3
Libya	33.2	56.5	71.7	89.9	60.4	76.6	84.1
Oman	22.7	36.8	41.6	59.9	53.4	62.3	67.8
Qatar	25.4	56.9	71.0	100.4	83.9	110.8	131.8
Saudi Arabia	223.7	356.6	385.2	475.7	369.7	438.0	477.3
Sudan	17.9	36.4	46.5	58.0	54.7	65.7	74.5
United Arab Emirates	90.8	163.7	207.6	261.4	229.9	252.5	271.2
Yemen	12.1	19.1	21.7	26.9	25.1	31.1	33.5
Oil importers	302.4	413.6	480.4	578.2	612.6	674.2	740.4
Afghanistan, Rep. of	5.1	7.7	9.7	11.8	14.0	17.0	19.0
Djibouti	0.6	0.8	0.8	1.0	1.0	1.1	1.2
Egypt	88.7	107.4	130.3	162.4	188.0	215.8	248.1
Jordan	10.2	14.8	17.0	21.2	22.9	24.9	27.2
Lebanon	19.3	22.4	25.0	29.5	33.6	37.0	40.0
Mauritania	1.3	2.7	2.8	3.5	3.0	3.6	3.9
Morocco	46.9	65.6	75.2	88.9	90.8	94.0	100.0
Pakistan	85.0	127.5	143.2	164.6	166.5	178.9	191.1
Syria	23.1	33.5	40.6	54.5	52.5	60.0	66.2
Tunisia	23.8	31.1	35.6	40.8	40.2	41.8	43.7
CCA	73.4	160.3	213.2	264.6	231.6	265.4	295.3
Oil exporters	62.9	140.5	186.2	229.5	202.6	235.7	263.5
Azerbaijan	7.7	21.0	33.1	46.4	43.1	51.8	54.0
Kazakhstan	32.7	81.0	104.8	135.6	109.3	126.3	143.5
Turkmenistan	10.6	21.4	26.0	19.0	17.4	20.2	24.5
Uzbekistan	11.9	17.0	22.3	28.6	32.8	37.3	41.5
Oil importers	10.5	19.8	26.9	35.1	29.0	29.8	31.8
Armenia	2.9	6.4	9.2	11.9	8.7	8.3	8.3
Georgia	4.2	7.8	10.2	12.9	10.7	10.9	11.7
Kyrgyz Republic	1.8	2.8	3.8	5.1	4.6	5.1	5.6
Tajikistan	1.5	2.8	3.7	5.1	5.0	5.5	6.1
<i>Memorandum</i>							
GCC	422.1	731.5	835.6	1,076.8	868.4	1,021.1	1,118.0
Maghreb	175.7	273.2	319.6	393.4	335.2	372.8	398.7
Mashreq	141.3	178.2	213.0	267.6	297.0	337.8	381.5

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

Table 3. Oil and Non-Oil Real GDP Growth for Oil and Gas Exporters

(Annual change; percent)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
Non-oil GDP							
MENAP oil exporters	5.8	7.0	7.8	5.4	3.6	4.1	4.6
Algeria	4.8	5.6	6.3	5.9	9.2	5.4	5.1
Bahrain	7.8	8.1	9.2	6.9	3.3	4.0	4.5
Iran, I.R. of	5.9	6.2	8.6	2.9	2.7	3.3	3.5
Iraq	...	7.5	-2.0	5.4	4.0	4.5	5.0
Kuwait	11.3	7.0	6.3	8.0	0.7	2.9	5.7
Libya	2.8	10.7	14.8	8.0	6.0	7.0	7.0
Oman	6.1	11.4	13.7	15.5	2.1	4.2	4.9
Qatar	10.0	19.9	14.5	14.5	8.0	11.5	11.0
Saudi Arabia	4.0	5.1	4.6	4.4	2.9	3.8	4.3
Sudan	5.1	9.7	7.5	8.5	4.8	6.2	5.5
United Arab Emirates	9.5	9.5	9.1	6.3	1.0	0.7	2.3
Yemen	5.2	4.7	5.3	4.8	4.1	4.4	4.8
CCA oil exporters	10.6	11.2	9.9	7.7	5.0	3.4	5.4
Azerbaijan	10.5	12.1	11.3	15.7	3.0	4.2	4.7
Kazakhstan	9.7	10.8	9.1	3.2	0.5	1.8	4.6
Turkmenistan	17.2	12.1	11.4	13.0	36.4	10.0	11.0
Uzbekistan	...	...	...	...	...	...	...
<i>Memorandum</i>							
GCC	6.3	7.5	7.0	6.8	2.8	4.0	5.0
Oil GDP							
MENAP oil exporters	5.8	2.3	0.7	0.4	-4.7	4.3	3.2
Algeria	4.1	-2.5	-0.9	-2.3	-6.6	2.7	2.3
Bahrain	-1.0	-1.0	1.1	1.2	0.1	0.1	0.1
Iran, I.R. of	2.9	2.7	1.7	-3.7	-6.6	0.0	0.0
Iraq	...	5.3	4.0	12.3	4.3	9.0	9.6
Kuwait	16.2	2.9	-2.3	4.2	-7.5	3.5	3.5
Libya	5.6	4.3	2.8	0.0	-1.5	3.7	5.4
Oman	0.8	-1.6	-1.6	6.4	5.9	5.7	4.3
Qatar	8.2	10.7	12.9	17.1	10.0	25.2	17.2
Saudi Arabia	4.3	-0.8	-3.6	4.2	-6.4	3.5	3.3
Sudan	49.7	26.5	33.0	-4.4	2.6	0.4	10.0
United Arab Emirates	3.9	6.5	-2.7	1.6	-6.3	3.3	5.7
Yemen	0.8	-8.3	-13.1	-8.1	1.6	48.0	-4.3
CCA oil exporters	15.9	22.0	15.4	3.6	4.7	6.6	1.5
Azerbaijan	13.2	62.0	37.3	6.9	14.8	1.3	-3.3
Kazakhstan	16.3	9.9	6.9	2.8	7.1	7.3	1.0
Turkmenistan	17.4	8.6	12.6	-0.7	-35.7	15.7	14.6
Uzbekistan	...	...	...	...	...	...	...
<i>Memorandum</i>							
GCC	5.5	1.6	-1.8	4.9	-4.0	5.8	5.2

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

Table 4. Crude Oil Production and Exports

(Millions of barrels per day)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
Production							
MENAP oil exporters	22.0	26.0	25.8	26.4	24.8	25.7	26.7
Algeria	1.1	1.4	1.4	1.3	1.2	1.3	1.3
Bahrain	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Iran, I.R. of	3.7	4.0	4.1	3.9	3.7	3.7	3.7
Iraq	...	2.0	2.0	2.3	2.4	2.6	2.9
Kuwait	2.1	2.6	2.6	2.7	2.5	2.6	2.6
Libya	1.5	1.8	1.8	1.8	1.8	1.9	2.0
Oman	0.9	0.7	0.7	0.8	0.8	0.9	0.9
Qatar	0.7	0.8	0.8	0.9	0.8	0.8	0.9
Saudi Arabia	8.3	9.2	8.8	9.3	8.3	8.6	8.9
Sudan	0.2	0.4	0.5	0.5	0.5	0.5	0.5
United Arab Emirates	2.2	2.6	2.5	2.6	2.4	2.5	2.6
Yemen	0.4	0.4	0.3	0.3	0.3	0.3	0.2
CCA oil exporters	1.5	2.2	2.4	2.5	2.8	2.9	2.9
Azerbaijan	0.3	0.6	0.8	0.9	1.0	1.0	1.0
Kazakhstan	1.0	1.3	1.4	1.5	1.6	1.7	1.7
Turkmenistan	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Uzbekistan	...	...	...	...	...	...	...
<i>Memorandum</i>							
GCC	14.4	16.2	15.7	16.3	15.0	15.5	16.2
Exports¹							
MENAP oil exporters	16.0	19.3	19.5	20.0	18.1	18.7	19.3
Algeria	0.7	0.9	0.9	0.8	0.8	0.7	0.8
Bahrain	0.2	0.1	0.1	0.1	0.2	0.2	0.2
Iran, I.R. of	2.3	2.4	2.5	2.4	2.1	2.1	2.0
Iraq	...	1.4	1.6	1.8	1.9	2.1	2.3
Kuwait	1.3	1.7	1.6	1.7	1.5	1.6	1.6
Libya	1.1	1.4	1.5	1.4	1.4	1.4	1.5
Oman	0.8	0.6	0.6	0.6	0.7	0.7	0.7
Qatar	0.7	0.7	0.8	0.8	0.7	0.7	0.8
Saudi Arabia	6.4	7.0	7.0	7.3	6.2	6.4	6.6
Sudan	0.2	0.2	0.4	0.4	0.4	0.4	0.4
United Arab Emirates	2.0	2.4	2.3	2.4	2.1	2.2	2.3
Yemen	0.3	0.3	0.2	0.2	0.2	0.2	0.2
CCA oil exporters	1.1	1.7	2.0	2.0	2.3	2.4	2.4
Azerbaijan	0.2	0.6	0.7	0.8	0.9	0.9	0.9
Kazakhstan	0.9	1.1	1.2	1.2	1.4	1.5	1.5
Turkmenistan	...	...	...	...	...	...	...
Uzbekistan	...	...	...	...	...	...	...
<i>Memorandum</i>							
GCC	11.3	12.7	12.4	13.0	11.4	11.8	12.2

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

¹Excluding exports of refined oil products.

Table 5. Consumer Price Inflation

(Year average; percent)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	5.3	6.9	8.9	15.6	8.3	7.4	6.4
Oil exporters	6.0	6.8	9.9	15.5	7.3	6.6	6.5
Algeria	2.3	2.3	3.6	4.9	5.7	5.5	5.2
Bahrain	0.7	2.0	3.3	3.5	2.8	2.4	2.0
Iran, I.R. of	13.5	11.9	18.4	25.4	10.3	8.5	10.0
Iraq	...	53.2	30.8	2.7	-2.8	5.1	5.0
Kuwait	1.7	3.1	5.5	10.5	4.7	4.5	4.0
Libya	-3.3	1.4	6.2	10.4	2.7	4.5	3.5
Oman	0.1	3.4	5.9	12.6	3.5	3.9	2.9
Qatar	3.5	11.8	13.8	15.0	-4.9	1.0	3.0
Saudi Arabia	-0.1	2.3	4.1	9.9	5.1	5.2	5.0
Sudan	7.6	7.2	8.0	14.3	11.3	10.0	9.0
United Arab Emirates	3.6	9.3	11.6	11.5	1.0	2.2	3.0
Yemen	11.6	10.8	7.9	19.0	3.7	9.3	8.4
Oil importers	4.0	7.1	6.9	15.9	10.0	8.9	6.4
Afghanistan, Rep. of	10.3	7.2	8.6	30.5	-8.3	-1.5	5.0
Djibouti	2.1	3.5	5.0	12.0	1.7	3.0	4.0
Egypt	4.7	7.6	9.5	18.3	14.1	10.7	9.0
Jordan	2.1	6.3	5.4	14.9	-0.7	5.3	4.6
Lebanon	0.5	5.6	4.1	10.8	1.2	5.0	3.4
Mauritania	7.9	6.2	7.3	7.3	2.2	4.8	4.8
Morocco	1.5	3.3	2.0	3.9	1.0	2.0	2.6
Pakistan	5.0	7.9	7.6	20.3	13.6	11.8	6.3
Syria	2.7	10.4	4.7	15.2	2.5	5.0	5.0
Tunisia	2.6	4.5	3.1	5.0	3.7	4.2	3.5
CCA	9.7	9.3	11.4	16.5	6.2	6.9	6.4
Oil exporters	10.0	9.7	11.9	16.8	6.5	6.9	6.4
Azerbaijan	4.1	8.4	16.6	20.8	1.5	4.7	3.5
Kazakhstan	8.2	8.7	10.8	17.1	7.3	7.3	6.6
Turkmenistan	8.4	8.2	6.3	14.5	-2.7	5.0	5.4
Uzbekistan	18.0	14.2	12.3	12.7	14.1	9.2	9.4
Oil importers	7.8	6.9	8.8	14.4	4.2	6.6	6.3
Armenia	2.6	2.9	4.4	9.0	3.4	6.8	5.2
Georgia	5.5	9.2	9.2	10.0	1.7	4.9	5.0
Kyrgyz Republic	6.5	5.6	10.2	24.5	6.8	8.4	7.6
Tajikistan	19.1	10.0	13.2	20.4	6.5	7.0	8.3
<i>Memorandum</i>							
GCC	0.9	4.3	6.4	10.7	3.3	4.1	4.1
Maghreb	1.3	2.8	3.6	5.6	3.7	4.2	4.0
Mashreq	3.9	7.8	8.1	17.1	10.5	9.1	7.7

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

Table 6. Broad Money Growth

(Annual change; percent)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	15.7	21.3	24.2	18.3	11.4	12.1	12.3
Oil exporters	16.9	24.3	27.0	19.7	12.0	11.4	12.3
Algeria	14.7	12.9	22.9	23.2	2.2	17.2	10.7
Bahrain	10.4	14.9	40.8	18.4	5.8	8.0	7.0
Iran, I.R. of	30.7	39.2	28.6	16.6	14.5	14.5	14.2
Iraq	...	34.6	37.3	35.4	16.1	21.9	...
Kuwait	9.3	21.7	19.3	15.6	13.4	6.7	8.7
Libya	7.6	16.0	40.1	47.8	27.0	20.0	14.0
Oman	8.0	24.9	37.2	23.1	4.7	7.4	9.5
Qatar	20.3	38.0	39.5	19.7	16.9	13.4	15.0
Saudi Arabia	10.8	19.3	19.6	17.6	10.7	8.2	10.6
Sudan	32.4	27.4	10.3	16.3	23.5	21.0	18.0
United Arab Emirates	19.9	23.2	41.7	19.2	9.7	6.7	13.3
Yemen	19.6	27.7	16.8	13.7	10.6	15.4	15.0
Oil importers	13.1	13.6	16.5	14.4	9.5	14.0	12.2
Afghanistan, Rep. of	...	22.3	14.4	64.9	14.1	23.8	9.3
Djibouti	11.2	10.2	9.6	20.6	14.9	9.5	8.8
Egypt	13.3	13.4	18.3	15.5	8.4	18.2	18.1
Jordan	10.7	14.1	10.6	17.3	9.3	13.7	9.3
Lebanon ¹	9.1	6.4	10.9	15.5	23.2	15.0	12.5
Mauritania	21.9	15.7	18.9	13.7	15.2	13.0	12.2
Morocco	9.9	17.2	16.1	10.9	4.5	9.9	7.4
Pakistan	15.1	14.9	19.3	15.3	9.6	14.3	11.8
Syria	16.8	9.2	12.4	12.5	10.2	12.1	6.0
Tunisia	9.6	11.4	12.5	14.4	13.1	6.8	7.7
CCA	36.1	65.3	43.5	36.5	16.9	20.6	17.6
Oil exporters	37.4	69.0	42.6	40.9	17.1	21.5	18.0
Azerbaijan	28.8	86.4	72.4	44.0	-0.3	15.0	20.0
Kazakhstan	40.7	78.1	25.9	35.4	17.9	22.4	13.9
Turkmenistan	32.4	55.9	72.2	62.8	16.6	14.0	36.7
Uzbekistan	41.0	37.8	46.9	35.6	39.9	32.8	19.5
Oil importers	28.4	43.1	49.2	6.2	15.8	15.0	15.1
Armenia	22.9	32.9	42.3	2.4	16.4	12.0	14.0
Georgia	27.9	39.3	49.6	7.0	8.1	17.0	13.3
Kyrgyz Republic	22.1	51.6	33.3	12.6	17.9	15.4	17.4
Tajikistan	48.0	63.4	78.8	6.0	32.7	16.1	19.2
<i>Memorandum</i>							
GCC	12.8	21.8	27.2	18.2	11.0	8.1	11.3
Maghreb	11.5	14.4	23.1	24.2	9.6	14.8	10.2
Mashreq	13.0	11.7	15.5	15.1	10.6	16.3	14.6

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

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

Table 7. Central Government Fiscal Balance

(Percent of GDP)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	1.8	6.7	4.6	6.9	-2.5	-0.3	1.0
Oil exporters	5.3	12.8	9.7	13.8	-0.8	2.8	4.6
Algeria	6.6	13.5	4.4	8.1	-8.4	-5.3	-4.2
Bahrain	4.6	4.7	3.2	8.0	-7.3	-0.8	2.1
Iran, I.R. of	2.0	0.0	2.7	0.0	-2.7	-0.8	-0.5
Iraq ¹	...	15.5	9.7	1.7	-22.6	-19.1	-5.7
Kuwait	27.0	35.4	40.2	27.7	27.0	22.0	23.0
Libya	12.6	31.8	25.5	24.6	10.7	17.2	18.4
Oman	8.4	13.8	11.1	13.9	3.0	7.5	7.9
Qatar	8.8	9.1	12.8	11.5	12.9	10.5	15.2
Saudi Arabia	3.8	21.0	12.2	32.6	-4.6	1.9	6.0
Sudan	-0.6	-4.3	-5.4	-1.4	-4.7	-3.4	-4.5
United Arab Emirates ²	6.3	28.5	21.5	20.5	0.4	11.3	13.4
Yemen ¹	0.0	1.2	-7.2	-4.5	-10.2	-5.3	-5.1
Oil importers	-4.7	-4.7	-4.9	-5.8	-5.5	-6.0	-5.4
Afghanistan, Rep. of	-0.9	-2.9	-1.8	-3.7	-0.7	-1.4	-1.5
Djibouti	-1.8	-2.5	-2.6	1.3	-4.6	-1.3	-0.3
Egypt ¹	-6.4	-9.2	-7.5	-7.8	-7.0	-8.0	-7.6
Jordan	-3.1	-3.6	-5.8	-5.7	-8.9	-6.7	-6.2
Lebanon	-15.6	-10.4	-10.8	-9.7	-8.4	-10.2	-11.1
Mauritania ³	-7.2	35.8	-1.6	-6.5	-5.1	-4.6	-3.8
Morocco	-5.2	-1.8	0.3	1.5	-2.2	-4.4	-3.8
Pakistan ¹	-2.7	-3.7	-4.0	-7.3	-5.0	-4.6	-3.8
Syria ¹	-2.1	-1.1	-4.0	-2.8	-5.5	-4.5	-3.4
Tunisia	-2.6	4.3	-2.0	-0.5	-2.8	-3.1	-2.8
CCA	0.6	4.2	3.1	6.3	1.0	1.8	2.5
Oil exporters	1.3	5.3	4.3	8.2	2.3	3.2	3.8
Azerbaijan	0.2	-0.2	2.6	20.8	6.8	18.3	18.3
Kazakhstan ¹	2.4	7.2	4.7	1.1	-1.5	-3.5	-2.8
Turkmenistan ⁴	1.0	5.3	3.9	11.3	10.1	3.8	4.9
Uzbekistan ¹	-0.6	5.2	5.1	10.7	3.1	1.7	3.6
Oil importers	-2.8	-1.6	-3.6	-3.8	-6.8	-6.7	-5.5
Armenia	-2.6	-2.0	-2.3	-1.7	-7.6	-5.6	-5.0
Georgia ¹	-1.1	-3.0	-4.7	-6.3	-9.2	-7.4	-5.5
Kyrgyz Republic ¹	-5.6	-2.1	-0.3	0.0	-3.1	-8.1	-7.7
Tajikistan ¹	-3.0	1.7	-6.2	-5.9	-5.3	-5.9	-4.2
<i>Memorandum</i>							
GCC	7.6	22.4	17.0	26.4	2.1	7.0	10.3
Maghreb	3.1	11.5	5.8	7.7	-2.9	-1.1	-0.2
Mashreq	-6.3	-7.7	-7.2	-7.1	-7.0	-7.6	-7.2

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

¹General government.²Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.³Includes oil revenue transferred to the oil fund.⁴State government.

Table 8. Central Government Total Revenue, Excluding Grants

(Percent of GDP)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	29.5	35.3	33.9	36.2	29.8	30.4	30.8
Oil exporters	34.0	42.2	40.1	43.5	34.1	35.7	36.3
Algeria	37.0	42.7	39.6	47.2	37.0	37.1	36.8
Bahrain	31.7	30.4	28.9	33.4	24.7	28.6	29.7
Iran, I.R. of	24.3	29.9	30.9	27.0	24.5	25.2	24.1
Iraq ¹	...	74.5	78.3	81.5	73.4	73.6	73.4
Kuwait	63.7	67.3	71.0	59.8	64.1	56.3	58.9
Libya	48.6	62.8	60.8	64.0	66.2	64.2	64.4
Oman	46.7	48.8	45.6	46.7	35.2	38.9	38.7
Qatar	40.3	41.5	45.6	38.6	49.5	42.1	44.7
Saudi Arabia	37.4	50.8	44.6	61.8	36.2	41.7	43.8
Sudan	15.4	20.5	20.0	21.3	15.2	17.3	16.9
United Arab Emirates ²	35.4	49.7	43.4	46.9	34.6	40.7	42.5
Yemen ¹	32.8	38.2	32.8	36.5	24.6	26.9	25.1
Oil importers	21.2	22.3	22.4	22.6	22.0	20.8	21.0
Afghanistan, Rep. of	4.8	7.5	6.9	6.9	8.8	9.1	9.6
Djibouti	26.4	31.1	30.2	28.8	30.6	30.6	30.9
Egypt ¹	25.7	28.2	27.2	27.6	27.0	24.0	23.7
Jordan	25.5	29.7	29.7	26.4	25.6	24.5	25.3
Lebanon	20.8	22.1	23.0	23.4	24.9	25.9	26.1
Mauritania ³	26.3	29.4	25.8	23.4	24.7	23.0	22.9
Morocco	22.6	25.1	27.4	29.7	26.0	24.3	24.4
Pakistan ¹	13.9	14.1	15.0	14.6	14.1	14.4	15.1
Syria ¹	27.4	25.5	22.7	19.4	21.9	21.3	21.5
Tunisia	23.9	23.4	23.8	26.2	24.6	24.0	23.6
CCA	25.0	27.3	28.3	33.4	29.6	31.1	31.2
Oil exporters	26.3	28.3	29.1	35.1	30.5	32.3	32.4
Azerbaijan	24.2	28.0	28.2	51.1	41.6	48.3	48.9
Kazakhstan ¹	24.6	27.5	28.8	27.9	23.4	24.7	25.0
Turkmenistan ⁴	21.2	20.2	17.3	23.6	25.8	21.7	21.7
Uzbekistan ¹	33.1	34.1	35.4	40.5	37.1	36.9	36.8
Oil importers	17.8	21.9	24.3	23.9	23.9	23.6	23.9
Armenia	15.6	17.5	19.3	19.6	20.0	20.3	20.7
Georgia ^{1, 5}	18.2	25.5	28.7	27.5	27.2	26.4	26.4
Kyrgyz Republic ¹	21.1	25.6	28.1	28.0	27.7	27.3	27.5
Tajikistan	16.5	18.9	20.5	20.5	20.0	20.2	20.6
<i>Memorandum</i>							
GCC	40.9	51.5	47.4	55.5	40.2	42.8	44.8
Maghreb	33.2	38.5	37.5	42.1	36.8	36.1	36.0
Mashreq	25.6	27.4	26.3	26.0	26.0	23.8	23.6

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

¹General government.²Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.³Includes oil revenue transferred to the oil fund.⁴State government.⁵Revised for 2002–04 to include extrabudgetary revenues.

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

(Percent of non-oil GDP)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP oil exporters	-33.5	-39.4	-40.9	-44.5	-41.6	-43.5	-40.6
Algeria	-31.5	-35.6	-45.7	-53.3	-48.4	-46.5	-44.2
Bahrain	-29.0	-28.5	-28.7	-33.9	-38.8	-36.9	-33.7
Iran, I.R. of	-18.9	-28.2	-26.2	-23.4	-19.7	-19.2	-17.9
Iraq ¹	...	-101.0	-134.0	-198.8	-169.6	-175.4	-151.7
Kuwait	-36.4	-30.3	-30.4	-52.6	-49.5	-56.7	-57.4
Libya	-76.1	-135.3	-136.0	-165.9	-135.6	-130.0	-125.0
Oman	-56.6	-54.5	-48.5	-56.0	-38.7	-43.2	-41.7
Qatar	-45.9	-41.3	-33.5	-26.4	-16.2	-30.9	-20.8
Saudi Arabia	-47.5	-52.7	-59.0	-60.6	-65.9	-72.1	-66.3
Sudan	-9.5	-18.5	-20.9	-20.1	-13.8	-14.7	-15.9
United Arab Emirates ²	-28.3	-13.7	-14.2	-27.1	-33.8	-29.9	-28.0
Yemen ¹	-35.4	-42.6	-43.1	-46.3	-31.3	-33.5	-29.6
CCA oil exporters	-5.5	-8.7	-9.8	-16.8	-16.6	-18.9	-17.9
Azerbaijan	-12.2	-31.2	-28.6	-38.4	-38.7	-34.7	-33.2
Kazakhstan ¹	-5.5	-4.2	-6.4	-15.9	-14.4	-20.8	-20.1
Turkmenistan ³	-10.0	-7.4	-6.5	-6.8	-10.2	-14.3	-13.9
Uzbekistan	...	...	...	...	...	...	...
<i>Memorandum</i>							
GCC	-43.3	-42.2	-44.6	-50.3	-51.7	-56.6	-51.8

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

¹General government.²Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.³State government.**Table 10. Oil Exporters: Central Government Non-Oil Revenue**

(Percent of non-oil GDP)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP oil exporters	13.7	16.4	16.7	16.8	16.2	15.3	16.0
Algeria	17.1	18.1	17.1	18.4	19.6	19.0	19.1
Bahrain	11.1	9.0	7.1	6.5	5.3	5.6	6.1
Iran, I.R. of	9.9	12.4	12.5	11.9	13.6	13.0	12.5
Iraq ¹	...	7.8	11.5	12.5	11.6	15.8	16.8
Kuwait	34.6	47.0	41.2	29.9	21.0	17.1	19.5
Libya	20.7	25.2	29.3	33.5	41.2	38.4	37.4
Oman	14.0	12.8	14.9	12.0	11.2	10.8	11.1
Qatar	29.7	34.6	41.8	42.5	56.1	46.2	53.7
Saudi Arabia	10.9	12.1	12.3	16.8	10.7	9.7	10.1
Sudan	8.4	11.3	10.3	9.0	8.6	9.7	9.6
United Arab Emirates ²	14.0	16.5	18.9	14.5	11.8	12.3	14.1
Yemen ¹	13.1	14.3	14.8	12.4	12.6	13.5	13.3
CCA oil exporters	18.5	19.5	20.7	18.1	15.7	15.4	15.4
Azerbaijan	23.9	29.9	29.7	27.7	26.8	27.6	28.1
Kazakhstan ¹	25.6	24.4	26.3	21.7	17.6	17.3	17.6
Turkmenistan ³	14.6	12.1	11.6	15.4	13.9	12.4	11.5
Uzbekistan	...	...	...	...	...	...	...
<i>Memorandum</i>							
GCC	15.6	18.8	19.4	19.7	16.2	14.8	16.8

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

¹General government.²Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.³State government.

Table 11. Central Government Total Expenditure and Net Lending

(Percent of GDP)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	28.1	29.1	29.5	29.5	32.5	30.9	30.0
Oil exporters	28.7	29.5	30.5	29.8	35.0	32.9	31.7
Algeria ¹	30.5	29.2	35.2	39.1	45.4	42.3	41.0
Bahrain	27.9	26.1	26.2	25.7	32.5	29.9	28.1
Iran, I.R. of	22.3	29.8	28.3	27.0	27.1	25.9	24.6
Iraq ²	...	72.7	74.0	82.6	99.0	94.5	80.5
Kuwait	36.7	31.9	30.8	32.1	37.0	34.3	35.9
Libya	36.0	31.0	35.3	39.3	55.4	47.0	46.1
Oman	38.3	34.8	36.6	32.7	32.4	31.3	30.9
Qatar	31.6	32.4	32.8	27.0	36.6	31.6	29.6
Saudi Arabia	33.6	29.8	32.3	29.2	40.8	39.8	37.7
Sudan	16.0	25.2	26.0	23.2	20.4	21.5	22.0
United Arab Emirates ³	29.1	21.2	21.9	26.4	34.2	29.4	29.1
Yemen ²	33.2	37.4	40.3	41.2	35.2	33.4	31.3
Oil importers	26.8	28.2	27.8	28.9	28.0	27.2	26.7
Afghanistan, Rep. of	13.8	19.6	19.7	19.3	20.0	22.3	23.4
Djibouti	34.3	37.4	37.7	40.6	41.6	39.2	37.4
Egypt ²	32.9	37.8	35.3	35.6	34.8	32.2	31.4
Jordan	35.5	36.4	38.3	36.9	36.6	32.1	32.7
Lebanon	36.5	35.5	35.3	34.0	33.7	36.4	37.4
Mauritania	37.0	28.5	29.6	30.6	30.6	30.5	27.9
Morocco ⁴	28.1	27.4	27.5	29.6	28.7	29.1	28.5
Pakistan ²	17.7	18.4	19.3	22.2	19.3	19.5	19.3
Syria ²	29.4	26.6	26.6	22.1	27.3	25.8	24.9
Tunisia	27.3	26.5	26.7	27.3	27.8	27.6	26.9
CCA	24.6	23.3	25.6	27.5	29.1	29.8	28.9
Oil exporters	25.2	22.9	24.9	27.1	28.3	29.2	28.7
Azerbaijan ⁵	24.0	27.4	25.9	31.1	34.8	30.0	30.7
Kazakhstan ²	22.3	20.2	24.2	26.8	24.8	28.1	27.9
Turkmenistan ⁶	20.2	14.9	13.4	12.3	15.6	17.8	16.9
Uzbekistan ²	34.5	29.2	30.5	30.0	34.2	35.7	33.6
Oil importers	21.5	25.5	29.3	29.6	34.3	33.2	30.8
Armenia	19.9	20.6	23.2	22.5	31.7	29.1	25.5
Georgia ²	19.9	29.7	34.0	37.0	38.5	36.5	33.2
Kyrgyz Republic ²	27.7	28.9	31.0	29.3	37.0	38.2	36.9
Tajikistan ²	19.9	21.9	28.6	28.0	28.6	28.5	27.7
<i>Memorandum</i>							
GCC	33.3	29.1	30.6	29.1	38.1	35.9	34.6
Maghreb	30.3	28.6	32.0	34.9	39.9	37.4	36.4
Mashreq	32.7	35.7	34.1	33.5	33.6	31.6	31.0

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

¹Including special accounts.²General government.³Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.⁴Net lending includes balance on special treasury accounts.⁵Expenditures do not include statistical discrepancy.⁶State government.

Table 12. Total Government Debt

(Percent of GDP)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	60.4	41.0	35.8	32.8	35.5	33.8	32.7
Oil exporters	44.7	22.5	17.9	15.4	19.8	17.5	16.4
Algeria	49.0	23.6	12.5	8.2	15.0	15.6	16.6
Bahrain	31.9	23.6	19.3	15.2	27.1	31.9	31.0
Iran, I.R. of	23.5	19.7	17.9	16.1	16.2	14.7	13.8
Iraq ¹	...	198.4	175.3	108.5	141.6	55.0	53.2
Kuwait	25.2	8.3	6.9	5.3	6.9	5.6	5.2
Libya	23.4	0.9	0.0	0.0	0.0	0.0	0.0
Oman	18.3	9.6	7.6	5.0	6.7	4.9	3.7
Qatar	41.6	13.2	9.4	15.0	39.5	30.5	26.3
Saudi Arabia	77.3	27.3	18.5	13.3	16.3	12.8	10.9
Sudan	145.8	89.3	82.3	69.8	80.2	70.7	71.0
United Arab Emirates ²	6.3	10.1	9.7	15.1	26.4	23.4	20.3
Yemen ¹	55.4	40.8	40.4	36.4	51.0	46.0	46.2
Oil importers	89.2	75.7	69.3	65.0	64.0	63.4	62.1
Afghanistan, Rep. of	...	...	...	...	...	...	...
Djibouti	68.1	63.3	58.2	60.2	60.3	60.5	56.1
Egypt ¹	100.0	98.8	87.1	76.6	76.2	74.1	72.0
Jordan	95.4	77.4	74.2	62.3	66.1	67.1	67.0
Lebanon	165.0	179.9	167.8	159.5	152.1	148.1	148.3
Mauritania ³	224.6	110.5	112.6	99.7	130.6	88.3	82.2
Morocco	65.4	58.1	53.5	47.2	46.9	48.5	48.7
Pakistan ¹	75.7	56.4	54.6	58.4	55.6	56.4	55.3
Syria ¹	110.5	50.6	40.5	30.5	29.1	28.6	26.0
Tunisia ¹	68.7	53.7	50.0	47.5	47.2	47.1	46.8
CCA	30.7	13.9	11.3	10.9	14.0	16.7	18.3
Oil exporters	23.5	10.0	8.1	7.7	9.5	11.5	13.1
Azerbaijan	20.9	10.2	8.6	7.3	12.1	14.1	14.5
Kazakhstan ¹	16.3	6.7	5.8	6.6	8.5	11.2	14.4
Turkmenistan ⁴	19.5	3.3	2.4	3.2	3.1	8.9	12.5
Uzbekistan ¹	43.5	21.3	15.8	12.8	11.3	10.6	9.0
Oil importers	66.3	34.8	28.9	28.4	41.1	48.1	50.3
Armenia	40.0	18.7	16.1	15.9	39.8	50.8	51.1
Georgia ¹	55.9	27.3	21.5	27.6	37.7	44.9	47.5
Kyrgyz Republic ¹	103.7	72.5	56.8	48.5	58.1	62.2	64.1
Tajikistan ¹	76.1	35.8	35.2	29.9	33.0	37.1	41.4
<i>Memorandum</i>							
GCC	53.5	19.9	14.2	12.2	18.5	15.4	13.5
Maghreb	52.8	34.1	27.4	23.7	26.9	27.0	27.3
Mashreq	106.7	96.4	85.6	75.4	74.9	73.1	71.2

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

¹General government.²Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.³Includes oil revenue transferred to the oil fund.⁴State government.

Table 13. Exports of Goods and Services

(Billions of U.S. dollars)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	627.9	876.5	1,029.9	1,338.5	933.7	1,138.2	1,259.3
Oil exporters	523.7	746.0	877.0	1,143.4	760.6	952.7	1,056.7
Algeria	28.6	57.3	63.5	82.1	48.0	58.1	61.1
Bahrain	8.7	15.5	17.2	21.1	16.3	19.2	20.2
Iran, I.R. of	41.5	82.8	104.7	108.4	86.9	98.3	99.9
Iraq	...	30.2	38.7	63.5	40.2	49.5	57.8
Kuwait	27.8	66.9	73.3	98.3	65.0	84.0	90.7
Libya	17.8	40.2	48.0	63.1	39.0	51.4	56.6
Oman	13.6	22.9	26.3	39.7	28.8	36.5	39.3
Qatar	16.7	39.3	51.5	71.2	52.2	79.6	108.0
Saudi Arabia	109.5	225.6	249.6	323.5	194.9	253.4	276.7
Sudan	2.8	6.0	9.3	13.0	8.2	11.5	13.0
United Arab Emirates	73.3	151.5	187.1	249.4	174.0	201.9	224.0
Yemen	4.6	7.9	7.8	10.2	7.1	9.4	9.4
Oil importers	89.1	130.5	152.8	195.1	173.1	185.5	202.6
Afghanistan, Rep. of	...	1.9	2.0	2.5	3.0	2.6	2.9
Djibouti	0.2	0.3	0.3	0.4	0.4	0.5	0.6
Egypt	19.6	33.9	39.5	53.3	47.0	48.9	56.7
Jordan	4.9	8.1	9.3	12.4	10.9	11.9	12.6
Lebanon	8.5	13.7	16.0	22.6	24.3	27.2	29.6
Mauritania	0.5	1.4	1.5	1.9	1.5	2.0	2.2
Morocco	13.9	21.7	27.3	33.4	26.3	29.2	31.7
Pakistan	12.9	20.3	21.4	24.0	23.1	23.6	23.9
Syria	7.9	13.1	15.5	19.3	16.7	18.7	20.4
Tunisia	11.0	16.0	20.1	25.2	19.9	20.9	22.1
CCA	32.0	75.6	100.8	142.7	100.9	122.5	133.4
Oil exporters	28.2	69.4	92.8	133.4	92.9	113.3	123.1
Azerbaijan	3.8	14.0	22.5	32.1	22.9	29.6	30.0
Kazakhstan	16.8	41.6	51.9	76.4	48.2	60.0	66.0
Turkmenistan	3.7	7.5	9.5	12.3	9.6	10.5	12.9
Uzbekistan	4.0	6.3	8.9	12.5	12.2	13.3	14.1
Oil importers	3.8	6.2	8.0	9.3	8.1	9.2	10.3
Armenia	0.8	1.5	1.8	1.7	1.3	1.5	1.7
Georgia	1.4	2.6	3.2	3.7	3.1	3.5	4.0
Kyrgyz Republic	0.8	1.5	2.2	3.0	2.8	3.3	3.6
Tajikistan	0.9	0.7	0.8	0.9	0.8	0.9	1.0
<i>Memorandum</i>							
GCC	249.4	521.6	605.0	803.2	531.2	674.5	758.9
Maghreb	71.8	136.6	160.3	205.8	134.6	161.7	173.7
Mashreq	40.9	68.8	80.3	107.6	98.9	106.7	119.3

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

Table 14. Imports of Goods and Services

(Billions of U.S. dollars)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	339.1	614.7	779.3	1012.0	897.4	993.2	1079.2
Oil exporters	239.5	446.5	578.2	748.6	662.6	745.3	811.2
Algeria	16.8	25.5	33.3	49.1	49.4	51.7	53.7
Bahrain	6.7	11.3	12.3	15.7	12.9	15.2	16.1
Iran, I.R. of	35.5	63.3	71.7	86.3	79.1	90.5	95.5
Iraq	...	23.2	29.3	49.1	50.4	62.9	64.9
Kuwait	16.1	25.8	31.2	38.0	34.5	38.5	43.9
Libya	8.8	15.9	20.4	25.4	26.9	29.1	31.4
Oman	8.7	13.8	19.2	26.8	21.6	26.3	28.1
Qatar	7.1	21.8	27.2	34.8	33.5	45.8	52.8
Saudi Arabia	63.6	115.3	147.1	179.5	160.4	188.6	203.7
Sudan	3.9	10.0	11.0	12.5	11.4	12.2	13.0
United Arab Emirates	59.9	112.9	166.1	219.7	172.3	173.9	197.2
Yemen	4.4	7.8	9.4	11.7	10.1	10.4	11.0
Oil importers	99.5	168.2	201.1	263.4	234.8	247.9	268.0
Afghanistan, Rep. of	5.0	7.4	8.4	9.4	9.7	10.2	10.8
Djibouti	0.3	0.5	0.6	0.7	0.6	0.7	0.8
Egypt	22.8	38.2	45.2	63.1	59.9	60.7	68.5
Jordan	7.7	13.2	15.7	19.2	16.3	17.9	19.0
Lebanon	12.7	16.7	20.6	28.1	29.6	32.9	35.4
Mauritania	0.9	1.6	2.1	2.7	2.0	2.4	2.6
Morocco	16.1	26.1	34.6	46.3	37.2	40.4	42.7
Pakistan	15.5	33.2	35.3	45.4	39.2	38.8	40.9
Syria	8.3	14.6	17.7	21.9	19.1	21.4	23.1
Tunisia	11.7	16.7	20.8	26.6	21.1	22.6	24.0
CCA	31.0	60.8	82.7	100.3	86.3	100.2	110.0
Oil exporters	25.7	50.0	67.5	79.7	70.9	82.4	90.9
Azerbaijan	4.2	8.1	9.4	11.5	9.9	13.3	14.2
Kazakhstan	14.8	32.9	45.0	49.6	38.8	45.3	51.7
Turkmenistan	3.1	3.6	4.9	7.8	10.2	10.9	11.4
Uzbekistan	3.5	5.4	8.2	10.8	12.0	12.9	13.7
Oil importers	5.3	10.8	15.3	20.6	15.4	17.8	19.1
Armenia	1.4	2.5	3.6	4.7	3.6	3.8	4.0
Georgia	2.0	4.4	5.9	7.5	5.3	5.9	6.4
Kyrgyz Republic	0.9	2.3	3.2	4.7	3.7	4.9	5.2
Tajikistan	1.1	1.6	2.6	3.7	2.8	3.1	3.4
<i>Memorandum</i>							
GCC	162.0	300.9	403.1	514.5	435.3	488.4	541.8
Maghreb	58.3	95.7	122.3	162.5	148.0	158.5	167.5
Mashreq	51.5	82.8	99.2	132.3	124.9	132.9	146.0

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

Table 15. Current Account Balance

(Billions of U.S. dollars)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	90.1	281.0	272.4	333.7	25.6	112.1	166.2
Oil exporters	91.2	287.5	284.0	361.6	53.1	140.3	195.8
Algeria	10.3	29.0	30.6	34.5	0.5	4.0	5.6
Bahrain	0.5	2.2	2.9	2.3	0.8	1.2	1.3
Iran, I.R. of	6.7	20.4	34.1	24.0	7.9	8.3	6.5
Iraq	...	8.5	7.2	13.1	-12.8	-16.8	-5.1
Kuwait	14.9	50.6	50.0	64.5	28.7	42.7	47.7
Libya	7.7	25.2	29.1	36.6	10.2	18.7	21.5
Oman	2.2	5.7	2.6	5.5	0.1	1.5	2.1
Qatar	6.7	16.1	21.8	33.1	13.8	27.8	51.9
Saudi Arabia	34.3	99.1	93.5	132.5	20.5	39.9	51.6
Sudan	-1.7	-5.5	-5.8	-5.2	-7.0	-5.5	-6.3
United Arab Emirates	10.4	36.2	19.5	22.2	-7.0	19.7	20.7
Yemen	0.6	0.2	-1.5	-1.3	-2.7	-1.1	-1.9
Oil importers	-1.1	-6.5	-11.6	-27.9	-27.5	-28.2	-29.6
Afghanistan, Rep. of	-0.3	-0.4	0.1	-0.2	0.1	-0.3	-0.2
Djibouti	0.0	-0.1	-0.2	-0.3	-0.2	-0.2	-0.2
Egypt	1.3	1.8	2.5	0.9	-4.4	-5.5	-5.3
Jordan	-0.1	-1.7	-3.0	-2.2	-1.3	-2.2	-2.6
Lebanon	-3.0	-1.2	-1.7	-3.4	-3.7	-4.7	-5.1
Mauritania	-0.3	0.0	-0.5	-0.6	-0.4	-0.3	-0.4
Morocco	1.0	1.4	-0.1	-4.6	-4.6	-4.7	-4.4
Pakistan	1.2	-5.0	-6.9	-13.9	-9.3	-6.7	-7.7
Syria	-0.4	-0.6	-0.9	-1.9	-2.4	-2.4	-2.3
Tunisia	-0.7	-0.6	-0.9	-1.7	-1.4	-1.1	-1.3
CCA	-1.0	5.2	3.4	24.8	4.0	10.3	11.4
Oil exporters	-0.5	6.6	6.4	29.9	6.8	14.2	15.2
Azerbaijan	-0.9	3.7	9.0	16.5	10.2	13.1	13.1
Kazakhstan	-0.4	-2.0	-8.3	6.3	-3.4	0.9	-0.2
Turkmenistan	0.4	3.4	4.0	3.6	-1.7	-1.8	0.3
Uzbekistan	0.5	1.6	1.6	3.6	1.7	1.9	2.1
Oil importers	-0.5	-1.5	-2.9	-5.1	-2.7	-3.8	-3.9
Armenia	-0.1	-0.1	-0.6	-1.4	-1.2	-1.1	-1.0
Georgia	-0.4	-1.2	-2.0	-2.9	-1.3	-1.5	-1.6
Kyrgyz Republic	0.0	-0.1	0.0	-0.4	0.2	-0.8	-0.7
Tajikistan	0.0	-0.1	-0.3	-0.4	-0.4	-0.4	-0.5
<i>Memorandum</i>							
GCC	69.0	209.8	190.3	260.0	57.0	132.8	175.4
Maghreb	18.0	54.9	58.2	64.1	4.4	16.6	21.1
Mashreq	-2.1	-1.8	-3.1	-6.6	-11.8	-14.9	-15.4

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

Table 16. Current Account Balance

(Percent of GDP)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	8.3	17.1	14.1	13.8	1.2	4.5	6.2
Oil exporters	12.1	23.4	19.6	19.6	3.4	7.8	10.0
Algeria	14.0	24.7	22.8	20.2	0.3	2.5	3.4
Bahrain	5.0	13.8	15.8	10.6	4.1	5.5	5.7
Iran, I.R. of	5.2	9.2	11.9	7.2	2.4	2.3	1.7
Iraq	...	18.9	12.7	15.1	-19.4	-21.0	-5.5
Kuwait	27.8	49.8	44.7	40.8	25.8	31.6	32.6
Libya	20.9	44.6	40.7	40.7	16.9	24.5	25.6
Oman	9.4	15.4	6.2	9.1	0.3	2.4	3.2
Qatar	25.6	28.3	30.7	33.0	16.4	25.1	39.4
Saudi Arabia	13.6	27.8	24.3	27.9	5.5	9.1	10.8
Sudan	-9.5	-15.2	-12.5	-9.0	-12.9	-8.4	-8.5
United Arab Emirates	11.0	22.1	9.4	8.5	-3.1	7.8	7.6
Yemen	5.3	1.1	-7.0	-4.6	-10.7	-3.6	-5.6
Oil importers	-0.4	-1.6	-2.4	-4.8	-4.5	-4.2	-4.0
Afghanistan, Rep. of	-7.0	-4.9	0.9	-1.6	0.7	-1.7	-1.3
Djibouti	-2.4	-14.7	-24.9	-27.6	-17.3	-17.0	-16.3
Egypt	1.6	1.6	1.9	0.5	-2.4	-2.6	-2.1
Jordan	0.0	-11.6	-17.6	-10.3	-5.6	-8.9	-9.7
Lebanon	-15.5	-5.3	-6.8	-11.5	-11.1	-12.8	-12.8
Mauritania	-18.8	-1.3	-18.3	-15.7	-12.8	-7.5	-9.7
Morocco	2.2	2.2	-0.1	-5.2	-5.0	-5.0	-4.4
Pakistan	1.6	-3.9	-4.8	-8.4	-5.6	-3.8	-4.0
Syria	-1.3	-1.8	-2.2	-3.6	-4.5	-4.0	-3.5
Tunisia	-3.3	-2.0	-2.6	-4.2	-3.4	-2.7	-3.0
CCA	-1.6	3.2	1.6	9.4	1.7	3.9	3.8
Oil exporters	-0.9	4.7	3.4	13.0	3.3	6.0	5.8
Azerbaijan	-12.2	17.6	27.3	35.5	23.6	25.3	24.2
Kazakhstan	-1.4	-2.5	-7.9	4.6	-3.1	0.7	-0.2
Turkmenistan	4.1	15.7	15.5	18.7	-9.7	-8.7	1.3
Uzbekistan	3.8	9.1	7.3	12.5	5.1	5.1	5.0
Oil importers	-5.4	-7.4	-10.8	-14.5	-9.4	-12.9	-12.2
Armenia	-6.4	-1.8	-6.4	-11.5	-13.8	-13.0	-12.6
Georgia	-8.0	-15.1	-19.7	-22.7	-12.2	-14.2	-13.8
Kyrgyz Republic	-0.1	-3.1	-0.2	-8.1	3.5	-15.4	-12.5
Tajikistan	-3.0	-2.8	-8.6	-7.7	-7.3	-8.0	-8.3
<i>Memorandum</i>							
GCC	14.9	28.7	22.8	24.1	6.6	13.0	15.7
Maghreb	9.7	20.1	18.2	16.3	1.3	4.5	5.3
Mashreq	-1.5	-1.0	-1.5	-2.5	-4.0	-4.4	-4.0

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

Table 17. Gross Official Reserves

(Billions of U.S. dollars)

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	251.8	601.8	848.7	1015.3	1008.4	1070.8	1138.8
Oil exporters	192.6	504.9	735.6	893.9	874.8	920.4	981.9
Algeria	30.9	77.8	110.2	143.1	147.2	149.9	157.9
Bahrain	1.5	2.7	4.1	3.8	3.6	4.1	4.2
Iran, I.R. of	25.9	60.5	82.9	79.6	83.6	88.5	93.0
Iraq	...	20.0	31.5	50.2	44.3	44.0	43.7
Kuwait	8.0	11.8	15.9	16.7	17.7	19.1	20.7
Libya	21.0	60.1	80.3	97.1	102.6	116.2	131.8
Oman	3.3	5.0	9.5	11.4	11.6	12.9	13.4
Qatar	2.5	5.4	9.8	9.8	18.8	21.6	21.6
Saudi Arabia ¹	73.4	225.2	305.3	441.9	408.6	422.3	450.5
Sudan	0.6	1.7	1.4	2.0	0.7	1.3	1.3
United Arab Emirates ²	16.4	28.0	77.9	30.9	29.9	35.3	39.5
Yemen	4.2	6.8	7.0	7.3	6.2	5.3	4.1
Oil importers	59.2	96.9	113.1	121.3	133.6	150.4	156.9
Afghanistan, Rep. of	1.3	2.0	2.8	3.4	4.1	5.0	0.0
Djibouti	0.0	0.0	0.0	0.0	0.0	0.2	0.2
Egypt	15.4	22.8	28.5	34.5	31.2	35.2	38.1
Jordan	3.8	6.2	6.9	7.7	11.1	11.8	12.0
Lebanon	7.5	11.4	11.5	18.8	27.5	32.4	36.0
Mauritania	0.0	0.2	0.2	0.2	0.2	0.2	0.3
Morocco	11.5	20.2	24.0	22.0	22.7	22.7	23.8
Pakistan	6.1	10.8	14.3	8.6	9.1	14.7	17.8
Syria	11.2	16.5	17.0	17.1	17.1	16.9	16.4
Tunisia	2.9	6.8	7.9	9.0	10.6	11.4	12.3
CCA	8.6	29.2	33.7	40.2	46.9	61.5	74.5
Oil exporters	7.4	26.3	29.4	35.9	40.8	54.9	67.6
Azerbaijan	0.9	2.5	4.3	6.5	5.4	6.7	7.8
Kazakhstan	4.8	19.1	17.6	19.9	23.2	33.6	42.6
Turkmenistan	...	...	...	...	...	...	...
Uzbekistan	1.7	4.7	7.5	9.5	12.2	14.7	17.2
Oil importers	1.2	2.9	4.3	4.3	6.0	6.6	6.9
Armenia	0.5	1.1	1.7	1.4	2.0	2.2	2.1
Georgia	0.3	0.9	1.4	1.5	2.1	2.3	2.5
Kyrgyz Republic	0.4	0.8	1.2	1.2	1.6	1.7	1.8
Tajikistan	0.1	0.1	0.1	0.2	0.3	0.5	0.5
<i>Memorandum</i>							
GCC	105.0	278.1	422.5	514.6	490.1	515.2	550.1
Maghreb	66.9	166.8	224.0	273.4	284.0	301.7	327.4
Mashreq	37.9	56.8	63.8	78.1	86.9	96.2	102.5

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

¹Saudi Arabia Monetary Agency gross foreign assets.²Central bank only. Excludes overseas assets of sovereign wealth funds.

Table 18. Total Gross External Debt(Percent of GDP)¹

	Average 2000–05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
MENAP	36.7	32.3	34.2	28.9	34.0	29.9	29.6
Oil exporters	32.2	29.1	33.5	27.9	34.0	28.5	27.9
Algeria	34.0	4.8	4.2	3.3	5.1	4.8	4.8
Bahrain	48.0	53.4	139.5	158.0	160.6	139.6	139.1
Iran, I.R. of	10.9	10.4	9.8	6.2	4.9	3.9	3.3
Iraq	...	219.7	181.0	110.5	137.1	47.5	43.5
Kuwait	25.3	26.0	23.5	16.9	24.3	20.3	19.0
Libya	17.5	9.9	7.8	6.2	9.2	7.3	6.6
Oman	23.3	15.5	17.3	15.3	16.3	13.3	11.5
Qatar	60.2	46.2	58.9	58.8	96.3	87.1	80.3
Saudi Arabia	11.7	11.9	19.7	17.5	23.4	22.3	21.9
Sudan	133.9	78.1	68.5	58.1	64.9	57.0	56.9
United Arab Emirates	24.8	49.2	62.7	52.0	56.4	55.3	55.5
Yemen	43.4	28.7	26.9	21.9	24.2	20.6	20.7
Oil importers	51.3	41.8	36.2	32.1	33.8	33.6	33.9
Afghanistan, Rep. of	56.5	155.0	20.7	19.2	10.4	10.5	11.4
Djibouti	59.1	56.8	63.6	60.2	63.4	61.0	58.3
Egypt	32.5	27.6	22.9	20.9	16.8	16.9	16.1
Jordan ²	73.0	49.3	43.6	24.3	23.4	20.7	18.1
Lebanon	163.3	198.8	194.1	175.1	195.2	198.4	210.6
Mauritania	216.9	94.1	97.4	83.3	103.1	68.8	70.8
Morocco	36.1	23.9	23.7	20.6	23.3	24.4	25.1
Pakistan	39.8	28.0	27.0	27.0	30.5	31.8	33.5
Syria	70.5	19.2	14.5	10.5	10.4	9.0	8.1
Tunisia ³	66.3	59.6	56.6	50.5	54.0	51.0	50.0
CCA	51.6	54.8	52.9	48.0	57.2	57.1	57.3
Oil exporters	49.9	57.3	55.7	50.3	58.5	57.2	57.3
Azerbaijan ⁴	18.5	9.4	7.7	6.5	7.9	10.2	10.6
Kazakhstan	73.0	91.4	92.4	79.8	100.8	97.5	96.0
Turkmenistan	19.5	3.3	2.4	3.2	3.1	8.9	12.5
Uzbekistan	37.0	22.1	16.7	13.1	13.2	12.3	11.0
Oil importers	61.3	36.9	33.1	33.2	48.0	55.6	56.9
Armenia	37.6	18.9	15.7	13.2	34.0	43.0	44.9
Georgia	47.2	34.6	35.7	42.0	55.4	62.7	62.5
Kyrgyz Republic	107.1	77.7	60.2	45.1	56.3	62.0	62.0
Tajikistan	90.1	42.7	40.9	45.9	48.6	54.8	57.6
<i>Memorandum</i>							
GCC	20.3	26.0	36.8	32.3	42.1	39.2	38.4
Maghreb	36.9	17.5	16.2	13.5	17.5	16.0	15.9
Mashreq	59.3	49.4	43.1	36.0	36.3	35.7	35.2

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

¹Nominal GDP is converted to U.S. dollars using period average exchange rate.²Excludes deposits of nonresidents held in the banking system.³Includes bank deposits of nonresidents.⁴Public and publicly guaranteed debt, as private debt data are not reliable.

Table 19. Capital Adequacy Ratios

(Percent of risk-weighted assets)

	2006	2007	2008	2009
MENAP				
Oil exporters				
Algeria	...	...	...	...
Bahrain	22.0	21.0	18.1	19.6
Iran, I.R. of	9.9	9.1	6.5	...
Iraq	...	...	...	...
Kuwait	21.8	18.5	16.0	...
Libya	17.2	17.6	16.2	...
Oman	17.2	15.8	14.7	15.5 ¹
Qatar	13.5	12.2	15.1	15.7
Saudi Arabia	21.9	20.6	16.0	18.0
Sudan	...	...	...	...
United Arab Emirates	16.6	14.0	13.3	18.6
Yemen ²	12.0	8.7	14.6 ³	14.9 ^{1,4}
Oil importers				
Afghanistan, Rep. of	...	...	...	...
Djibouti	...	...	...	...
Egypt	14.7	14.8	14.7	15.3 ⁵
Jordan	21.4	20.8	18.4	19.3 ¹
Lebanon ⁶	25.0	12.5	12.1	12.4 ⁷
Mauritania	...	...	...	...
Morocco	12.3	10.6	11.2	11.7 ¹
Pakistan	11.3	13.4	12.1	13.5
Syria	7.0	6.5	6.5	6.5 ⁵
Tunisia	11.8	11.6	11.7	...
CCA				
Oil exporters				
Azerbaijan	...	19.9	19.6	17.7
Kazakhstan	...	...	12.4	-9.1
Turkmenistan	...	15.9	30.9	24.8 ⁵
Uzbekistan	...	23.2 ⁸	23.2	23.4 ⁵
Oil importers				
Armenia	...	30.1	27.5	28.3
Georgia	...	30.0	24.0	25.6
Kyrgyz Republic	...	31.0	32.6	33.5
Tajikistan	...	19.4	24.2	25.4

Sources: National authorities.

¹ As of June 2009.² Data refer to all banks except the Housing Bank and CAC bank. 2006 includes CAC bank data.³ Audited financial statements.⁴ Monthly data received from banks; adjustments made by external auditors have been reflected in June data.⁵ As of September 2009.⁶ From 2007 onward, based on revised risk weights (Basel II).⁷ As of November 2009.⁸ As of March 2009.

Table 20. Return on Assets

(Percent)

	2006	2007	2008	2009
MENAP				
Oil exporters				
Algeria	...	...	...	...
Bahrain	2.1	1.2	1.3	1.2
Iran, I.R. of	...	...	...	...
Iraq	...	...	...	...
Kuwait	3.2	3.4	3.2	...
Libya	1.2	1.2	1.3	...
Oman	2.3	2.1	1.7	2.2 ¹
Qatar	3.7	3.6	2.9	2.6
Saudi Arabia	4.0	2.8	2.3	1.9
Sudan	...	...	...	...
United Arab Emirates	2.3	2.0	2.3	1.5
Yemen	1.2	1.6	1.0	...
Oil importers				
Afghanistan, Rep. of	...	...	...	1.2 ²
Djibouti	...	...	...	...
Egypt	0.8	0.9	0.8	...
Jordan	1.7	1.6	1.4	0.6 ¹
Lebanon ³	0.9	1.0	1.1	1.0 ⁴
Mauritania	...	...	...	...
Morocco	1.3	1.5	1.2	1.3
Pakistan	1.9	2.0	1.7	1.0
Syria	2.0	2.4	1.8	1.3 ⁵
Tunisia	0.7	0.9	1.0	...
CCA				
Oil exporters				
Azerbaijan	...	1.9	1.8	2.2
Kazakhstan	...	2.3	0.3	-24.1
Turkmenistan	...	4.1	4.3	2.9 ⁵
Uzbekistan	...	2.4 ⁶	8.9	5.9 ⁵
Oil importers				
Armenia	3.6	2.9	3.1	0.8
Georgia	...	1.9	-2.6	-0.8
Kyrgyz Republic	...	27.0	20.7	13.6
Tajikistan	...	2.7	2.0	0.8

Sources: National authorities.

¹ As of June 2009.² As of January 2010.³ After tax.⁴ As of November 2009.⁵ As of September 2009.⁶ As of March 2007.

Table 21. Nonperforming Loans

(Percent of total loans)

	2006	2007	2008	2009
MENAP				
Oil exporters				
Algeria	...	...	...	...
Bahrain	4.8	6.0	2.3	3.9
Iran, I.R. of	9.9	15.7	18.3	...
Iraq	...	...	...	...
Kuwait	3.9	3.2	3.1	...
Libya	25.4	24.9	20.2	...
Oman	4.9	3.2	2.1	2.8 ¹
Qatar	2.2	1.5	1.2	2.0
Saudi Arabia	2.0	2.1	1.4	2.8
Sudan	...	...	...	...
United Arab Emirates	6.3	2.9	4.0	4.6
Yemen ²	23.0	19.5	18.0 ³	15.9 ^{1,4}
Oil importers				
Afghanistan, Rep. of	3.4	0.9 ⁵	1.2 ⁶	0.7
Djibouti	...	...	...	...
Egypt	18.2	19.3	14.8	14.7 ⁷
Jordan	4.3	4.1	4.2	6.4 ¹
Lebanon	6.8	4.7	3.1	2.3 ⁸
Mauritania	...	...	...	...
Morocco	10.9	7.8	6.0	5.4
Pakistan	8.3	7.4	7.7	11.5
Syria	4.7	5.3	5.1	5.1 ⁷
Tunisia	19.3	17.6	15.5	...
CCA				
Oil exporters				
Azerbaijan	...	3.0	3.3	3.5
Kazakhstan ⁹	...	...	5.2	21.2
Turkmenistan	...	0.4	0.1	0.2 ⁷
Uzbekistan	...	2.6 ¹⁰	3.0	1.3 ⁷
Oil importers				
Armenia	...	2.4	4.4	4.8
Georgia	...	0.8	4.1	6.3
Kyrgyz Republic	...	3.6	5.3	8.2
Tajikistan	...	4.8	9.5	22.7

Sources: National authorities.

¹ As of June 2009.² Data refer to all banks except the Housing Bank and CAC bank. 2006 includes CAC bank data.³ Audited financial statements.⁴ Monthly data received from banks; adjustments made by external auditors have been reflected in June data.⁵ As of March 2008.⁶ As of March 2009.⁷ As of September 2009.⁸ As of November 2009.⁹ 90-day basis.¹⁰ As of March 2007.