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IIF
INSTITUTE OF INTERNATIONAL FINANCE

IIF REGIONAL OVERVIEW

GCC: Surge in Oil Revenues Fuels Strong Growth

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EXECUTIVE SUMMARY

- The six Gulf Cooperation Council (GCC) countries will experience robust growth in 2012, although at a somewhat more moderate rate than in 2011. Sharp increases in oil production to offset losses in Libya, coupled with a surge in public spending, helped lift the region's growth rate to 6.9% last year. This will moderate to 4.9% in 2012, and a likely 4.2% in 2013. Expansionary fiscal and monetary policies are expected to remain in place in light of the continued rise in hydrocarbon revenues, the peg to the dollar, and the modest rebound in private credit. Inflation will remain subdued.

- The GCC countries possess 40% of the world's proven oil reserves and 25% of gas reserves. Spare oil production capacity in the region is between 2.5-3.0 million barrels per day, enabling key countries, especially Saudi Arabia, to meet any shortfall in exports from Iran stemming from the sanctions or other supply disruptions. The GCC will continue to play a pivotal and stabilizing role in the volatile global energy markets.

GCC: Real GDP Growth

	Overall Real GDP Growth (%)			Hydrocarbon Growth (%)			Nonhydrocarbon Growth (%)		
	2011e	2012f	2013f	2011e	2012f	2013f	2011e	2012f	2013f
GCC	**6.9**	**4.9**	**4.2**	**10.8**	**5.5**	**2.0**	**4.9**	**4.5**	**5.0**
Saudi Arabia	6.4	5.0	4.3	9.8	5.6	2.3	5.1	4.7	5.0
UAE	4.7	3.2	3.2	8.2	3.5	1.3	3.1	3.0	4.2
Kuwait	5.0	4.1	3.0	8.2	6.1	2.1	3.0	3.2	3.3
Qatar	16.2	8.3	5.2	22.8	7.9	1.7	11.6	8.7	8.0
Oman	5.4	6.4	5.7	3.2	5.0	1.5	6.4	7.0	7.5
Bahrain	2.2	3.3	4.6	4.0	4.7	5.3	2.0	3.2	4.5

- Assuming Brent oil prices average $114 per barrel for 2012 and oil production remains at the level registered during Q1 2012, budget revenues from oil are projected to grow from $538 billion in 2011 to a record $572 billion in 2012. As a result, the consolidated fiscal surplus will widen to 12% of GDP. With the combined external current account surplus expected to be a record $358 billion, gross foreign assets could rise to about $2.3 trillion. With relatively little external debt, the region's net foreign assets position of $1.9 trillion (127% of GDP) will remain substantial.

- Economic activity in the heavily oil-based economies of the six countries continues to be driven by buoyant government spending, financed by surging oil and gas revenues and setting the pace for private sector activity. As a measure of the public sector's contribution to aggregate demand, the nonhydrocarbon government deficit averaged 27% of GDP and 60% of nonhydrocarbon GDP in 2011.

- Government spending since 2002 has grown at an average annual nominal rate of 14.5%, driving up the breakeven (Brent) price of oil that would balance these

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GCC: Fiscal and External Balances, and Net External Assets

	Fiscal Balance (%, GDP))			Current Account Balance ($ billion)			Net Foreign Assets* ($ billion)		
	2011e	2012f	2013f	2011e	2012f	2013f	2011e	2012f	2013f
GCC	**11.4**	**12.0**	**7.4**	**327**	**358**	**262**	**1,605**	**1,904**	**2,139**
Saudi Arabia	12.6	15.4	9.9	154	166	119	613	736	812
UAE	4.4	4.7	1.6	38	51	34	503	565	619
Kuwait	28.1	26.1	16.9	55	58	47	396	457	515
Qatar	10.1	8.5	5.5	66	69	55	59	107	150
Oman	9.5	6.5	2.3	11	10	4	16	19	22
Bahrain	-2.1	-0.8	-3.1	3	4	3	18	20	21

*Net Foreign Assets = Foreign Assets - Foreign Liabilities
Foreign Assets = Official Reserves + Foreign Assets of Banks + SWFs

The external and fiscal balances will remain in large surpluses, leading to a further increase in net foreign assets

countries' budgets. For example, for Saudi Arabia and the UAE, breakeven prices have risen from about $30 per barrel in 2003 to $80 per barrel and $90 per barrel, respectively. While for the principal oil producers in the region breakeven prices remain comfortably below prevailing market levels, the unrelenting rise in and the near irreversibility of government spending could expose the fiscal position to undue risk because of the historically high volatility of oil and gas prices.

While breakeven prices have risen sharply in recent years, they remain well below the current oil prices

- Since the onset of the global financial crisis and, subsequently, the Dubai debt difficulties, affected financial institutions have steadily strengthened their balance sheets, thanks to public sector support, supervisory vigilance, and timely recovery in earnings. Banks in the GCC are now sounder. The rise in provisions is tapering off and NPLs in the affected banks should begin to trend downwards.

- Countries in the region have made commendable efforts to diversify their economies through investment in manufacturing, downstream activities, and especially in services (finance, tourism, trade-related services, and health and education). Considerable public investments in infrastructure continue to be made to facilitate private sector activity. Much more remains to be done, especially on appropriate skill development and on restructuring incentives to help create private sector jobs for nationals.

Considerable public investments in infrastructure continue to be made to facilitate private activity

- The risks to the outlook for the GCC countries are large although difficult to quantify. In the first place, political turbulence in the Arab countries, if it is prolonged, could infect the region with negative consequences. However, we do not attach a high probability to this risk. Other risks arising from sanctions on Iran indicate ambiguous outcomes. On the one hand, a large drop in Iran's oil exports, but in the absence of a military confrontation, suggests an upside risk, since it would necessitate significantly higher oil output from the GCC countries, raising the growth rate and lifting hydrocarbon receipts and government spending. However, an escalation of the crisis into a military conflict with Iran could bring about untold damage to the economies of the region, as such a conflict could easily spread to parts of the GCC region.

A large drop in Iran's oil exports, but in the absence of a military confrontation, suggests an upside risk, since it would necessitate higher oil output from the GCC countries, raising growth and surpluses

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HIGHER OIL PRICES SUPPORT STRONG GROWTH

Our projections in this report are based on a forecast of **global** growth of 3.0% in 2012 and 3.6% in 2012, using market exchange rates weights, and average Brent **oil prices** of $114 per barrel (/b) in 2012 and $105/b in 2013. The expansion in 2012 is based on market exchange rates, but would be 3.5% based on world purchasing power parity weights (Table 1).

The recovery in Japan and the modest acceleration in growth in the U.S. will partially offset the mild recession in the Euro Area. Growth in emerging economies is expected to decline slightly due to the worsening of the external environment (including lower demand for their exports and higher global oil prices). Growth in world trade, in volume terms, is expected to decelerate from 7% in 2011 to 4.3% in 2012, and then recover modestly in 2013.

Economic activity in the **GCC** is expected to moderate in 2012 but should remain strong. Real GDP is projected to expand by 4.9%, following growth of 6.9% in 2011 driven by exceptional growth in hydrocarbon production (Chart 1). For 2012, several factors will continue to support growth. First is the sizable positive contribution of the hydrocarbon sector to overall growth (oil output is expected to increase by 5.5%). Second, high oil prices will continue to boost government revenue with spillover effects on other sectors. Third, fiscal policy remains expansionary and monetary policy accommodative given the peg of the currencies to the dollar.

The aggregated nominal GDP in dollar terms rose by about 31% to $1.4 trillion in 2011, mainly due to higher oil prices and crude oil production (Table 2). Buoyant hydrocarbon revenue contributed to large fiscal and external surpluses despite strong import growth and fiscal expansion. The GCC's consolidated external current account surplus is expected to increase to a new peak of $348 billion in 2012, compared with an estimated $319 billion in 2011. The consolidated fiscal surplus will remain around 13% of GDP in 2012, despite a further increase in government spending.

The diversified nature of investments, and the projected large current account surpluses, should result in a further increase in the stock of net foreign assets to about $2.1 trillion by end-2013, equivalent to 140% of projected GDP (Table 2 and

Table 1
Overview of World Economic Outlook

	2009	2010	2011e	2012f	2013f
	(Real GDP Growth, % change)				
World[1]	-2.4	4.4	3.2	3.0	3.6
World[2]	-0.7	5.2	3.9	3.6	4.2
United States	-2.4	3.0	1.7	2.4	2.5
Japan	-5.2	4.5	-0.7	2.0	1.5
Euro Area	-4.0	1.8	1.5	-0.4	0.9
Emerging Economies	1.6	7.2	6.0	5.5	6.1
	(World Trade Volume, % change)				
Merchandise or Goods	-12.6	14.9	5.6	5.3	6.0
	($/barrel, period average)				
Brent Crude Oil Price	62.3	80.2	110.9	114.1	105.0

[1]Based on market exchange rates.
[2]Based on world purchasing power parity weights.

Chart 1
GCC: Real GDP Growth
percent

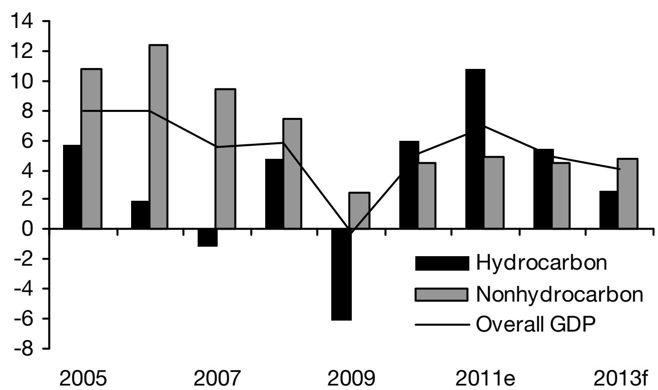

Table 2
GCC: Consolidated Main Economic Indicators

	2009	2010	2011e	2012f	2013f
Real GDP Growth, %	-0.2	5.3	6.9	4.9	4.2
CPI, average, % change	2.8	2.8	3.3	3.2	3.1
Nominal GDP, $ bn	918	1079	1394	1504	1515
Hydrocarbon	374	496	759	820	776
Nonhydrocarbon	543	583	635	684	739
Current Account Bal., $ bn	65	160	327	358	262
Net Foreign Assets, $ bn	1024	1149	1605	1905	2139
Fiscal Balance, % GDP	-1.1	4.5	11.4	12.0	7.4
Oil production, mbd	14.8	15.0	16.5	17.3	17.8
Gas production, mboe/d	4.6	5.4	6.3	6.6	6.7

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Chart 2). About 60% of the foreign assets of the region are managed by sovereign wealth funds (SWFs) and invested in diversified portfolios of public equities, fixed income securities, real estate, and minority shares in big-name global companies. The large net foreign assets of the region and firmer oil prices will help sustain robust government spending levels over the medium term.

After topping an estimated $685 billion in 2011, the region's hydrocarbon export receipts look set to rise to near $730 billion in 2012. Similarly, on the fiscal side, government revenue from hydrocarbons is now estimated at $536 billion for 2011, rising to $567 billion in 2012 (Chart 3). The continued increase in hydrocarbon receipts comes from both firmer oil prices and further increases in production volumes.

Public spending since 2004 has grown at an average annual nominal rate of 15% (Chart 4). Governments in the region are expected to sustain high public spending, particularly on infrastructure and social investment plans. As a result, imports will continue rising rapidly in volume terms (the deceleration in the growth of imports in 2012 is due mainly to lower global nonfuel commodity prices). However, sizable increases in hydrocarbon export receipts and fiscal revenues will more than offset the projected increase in imports and government spending, resulting in wider external current account and fiscal surpluses through 2013. As a measure of the public sector's contribution to aggregate demand, the nonhydrocarbon government deficit averaged 27% of GDP and 60% of nonhydrocarbon GDP in 2011 (Chart 5).

The regional growth average masks wide variations in prospects for individual countries (Table 3). Qatar and Saudi Arabia will continue to be the main drivers of activity in the region. Overall growth in **Saudi Arabia** is expected at about 5.0% in 2012, driven by the surge in crude oil production and the lagged effect of the sharp increase in public spending (26%) last year. The modest inflationary pressures in Saudi Arabia will persist, as they reflect local housing bottlenecks and stronger domestic demand.

In the **UAE**, we expect overall growth to moderate to 3.1% in 2012 from an estimated 4.7% in 2011. While growth in Abu Dhabi will remain strong, driven by a sizable increase in public spending, Dubai's economy will be more vulnerable to weaker global growth and to the adverse impact on trade from the

Chart 2
GCC: Current Account Surplus and Foreign Assets

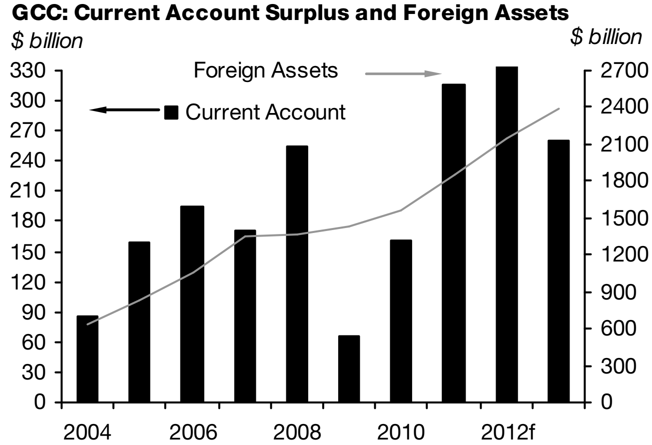


Chart 3
GCC: Hydrocarbon Income versus Imports

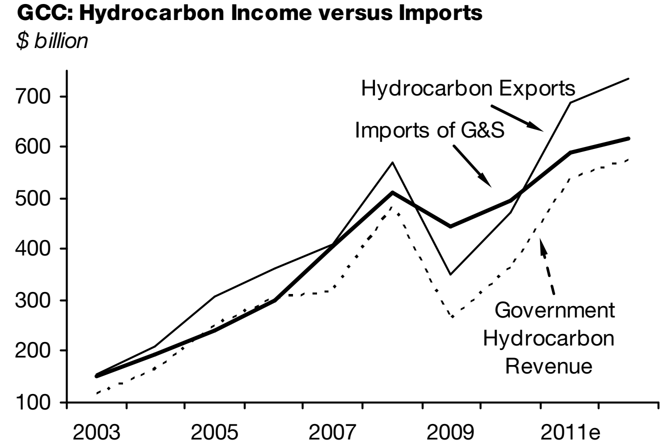
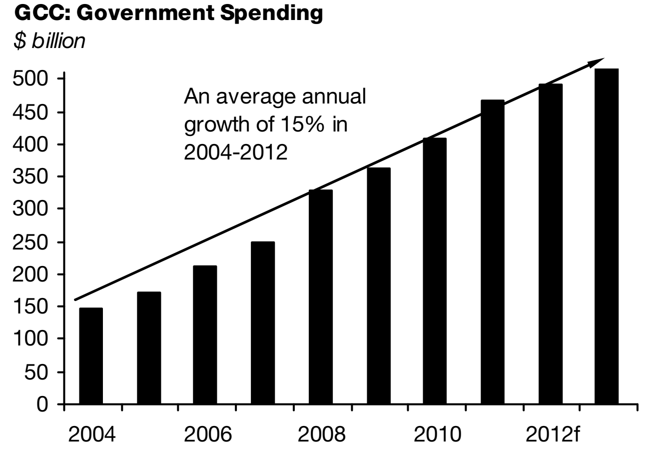


Chart 4
GCC: Government Spending



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recent sanctions on Iran, which is an important trading partner. Since the onset of the global financial crisis and, subsequently, Dubai's debt difficulties, affected banks in the UAE have steadily strengthened their balance sheet, thanks to public sector support, supervisory vigilance, and timely recovery in earnings. Banks in the UAE are now sounder. The rise in provisions is tapering off and NPLs in the affected banks should begin to trend downwards.

In **Qatar**, the moratorium on expanding liquefied natural gas (LNG) production capacity, in effect until 2015, will moderate growth. But continued strength in public spending on infrastructure will maintain nonhydrocarbon growth of around 8% through 2015.

The relatively weak nonhydrocarbon growth of less than 3% in **Kuwait** is due to the ongoing disputes between the ruling family and the parliament on policy implementation. A higher level of growth requires a political consensus on much-needed reforms, and a shift in public spending to support increases in nonhydrocarbon productive capacity in the private sector.

Oman's growth accelerated, driven by robust expansion in the nonoil sector. Prospects for strong growth this year are encouraging. The unrest last year had little impact on economic activity, but did result in some political reforms and an increase in government spending.

In **Bahrain** activity was hit last year by demonstrations and unrest, which adversely impacted tourism, retail trade and the banking sector. The increase in oil production has offset some of the decline in the nonoil sector. Prospects for 2012 and 2013 are brighter, although simmering unrest and isolated outbreaks of violence suggest that growth is unlikely to return to levels in excess of 5% per year.

Average **inflation** is expected to remain at around 3% across the GCC this year, with the UAE and Qatar at the lower end of the range and Saudi Arabia and Kuwait at the higher end. High excess capacity and lower rents in Qatar and the UAE continue to offset inflationary pressures. Very open trade systems have allowed imports to meet higher domestic demand while the ease of importing labor continues to accommodate the increased demand for nontradables without the need to significantly change relative prices. The recent decline in global nonfuel commodity prices will help to limit inflationary pressures, particularly in Saudi Arabia.

Chart 5
GCC: Consolidated Fiscal Accounts
$ billion

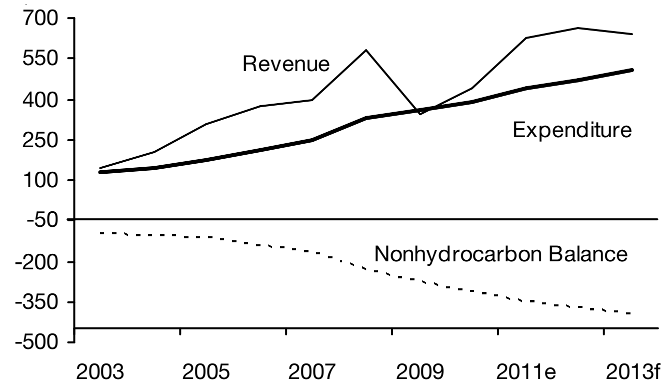

Table 3
GCC: Growth and Inflation

	2009	2010	2011e	2012f	2013f
			Overall Growth, %		
Saudi Arabia	0.3	4.1	6.4	5.0	4.3
UAE	-3.5	3.2	4.7	3.1	3.2
Kuwait	-4.8	3.1	5.0	4.1	3.0
Qatar	8.6	16.8	16.2	8.3	5.2
Oman	1.1	4.2	5.4	6.4	5.7
Bahrain	3.1	4.5	2.2	3.3	4.6
			Hydrocarbon Growth, %		
Saudi Arabia	-7.5	2.2	9.8	5.6	2.3
UAE	-8.5	4.6	8.3	3.3	1.3
Kuwait	-11.0	3.2	8.2	6.1	2.2
Qatar	4.5	23.1	22.6	7.8	1.5
Oman	6.2	6.7	3.2	5.0	1.5
Bahrain	-0.8	1.8	4.0	4.7	5.3
			Nonhydrocarbon Growth, %		
Saudi Arabia	3.5	4.7	5.1	4.7	5.0
UAE	-1.3	2.5	3.1	3.0	4.2
Kuwait	-1.0	3.0	3.2	3.0	3.2
Qatar	17.6	12.6	11.6	8.7	8.0
Oman	-0.9	3.2	6.4	7.0	7.5
Bahrain	3.5	4.8	2.0	3.2	4.5
			Inflation, average, %		
Saudi Arabia	5.1	5.4	5.0	4.5	4.1
UAE	1.8	0.6	0.9	1.0	2.5
Kuwait	4.0	4.1	4.7	3.1	3.1
Qatar	-4.9	-2.4	1.9	1.9	2.2
Oman	3.5	3.3	4.0	3.1	3.3
Bahrain	2.8	1.9	-0.4	1.2	2.3

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BANKS ARE SOUND, SOME ISSUES REMAIN

GCC banks remain well capitalized and profitable. The balance sheets of banks in the region have been strengthened as a result of the strong economic performance in recent years, high government participation in banks. Issues of governance and moral hazard, however, remain. In recent years, significant improvement has been made in regulation and supervision. The average capital adequacy ratio is above 15% for every banking system in the region, although variations among individual banks are at times significant (Table 4). While nonperforming loan (NPL) ratios are in the low single digits, they remain relatively high in Kuwait and the UAE (close to 8%). Similarly, the ratio of banks' provisions to potential losses associated with NPL ratios are high in Saudi Arabia, Oman and Qatar, but are below 70% in Bahrain and Kuwait.

Overexposure to real estate and highly leveraged companies has eroded asset quality in the UAE and Kuwait. In the **UAE**, exposure to government-related entities (GREs) exceeds 30% of capital. In **Saudi Arabia**, the balance sheets of the banks are in a relatively strong position, as real estate prices remain broadly stable, and banks' loan-to-deposit ratios are relatively low at 78% as of end-2011. Prudential regulations in Saudi Arabia are strictly enforced. In **Kuwait**, the banking portfolio is highly exposed to real estate and investment companies, which have proliferated in recent years without adequate controls. The stressed domestic investment companies have put strains on the banking sector during the current crisis. While **Qatari** banks are in a relatively strong position in a currently buoyant economy, high exposure to real estate could take its toll on future asset quality.

CREDIT GROWTH RETURNS TO HISTORICAL TREND

Private sector credit growth in the UAE and Kuwait has been subdued in the past three years as banks remain cautious in light of the deterioration in asset quality. However, credit to nonfinancial public enterprises (NFPEs), particularly in Abu Dhabi and Qatar, has been increasing at a rapid pace, reflecting some rebalancing of banks' portfolios towards safer assets. In Dubai, the need to deleverage is the most important factor holding back bank loan growth. In Saudi Arabia, private sector credit growth has accelerated to 12% in February 2012, year-on-year (Charts 6 and 7). As capital inflows to the region are likely to remain weak in the short term, the funding of credit growth will have to rely on domestic deposit growth.

Table 4
Banking Soundness Indicators
percent, latest available month for 2011

	Capital Adequacy	NPLs to Total Loans	Provisions to NPLs	Loans to Deposits
Bahrain	19.5	3.7	….	72
Kuwait	18.5	7.3	30*	111
Oman	15.5	3.3	104	103
Qatar	16.1	2.0	95	92
Saudi Arabia	17.1	2.8	130	78
UAE	20.8	8.0	84	100
Russia	17.2	8.0	100	110
Kazakhstan	17.8	25.3	31	126

*For Kuwait, specific provisions as % of nonperforming loans (NPLs)

Chart 6
Credit to the Private Sector
percent change, yoy

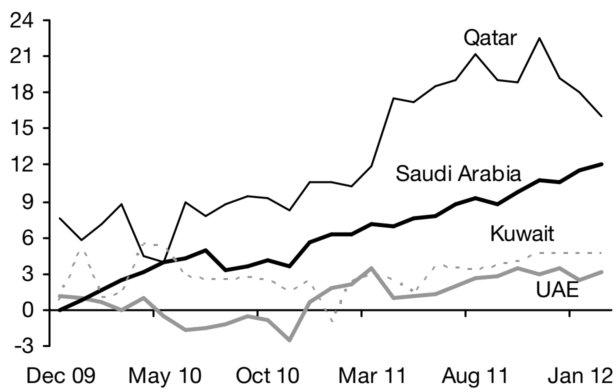
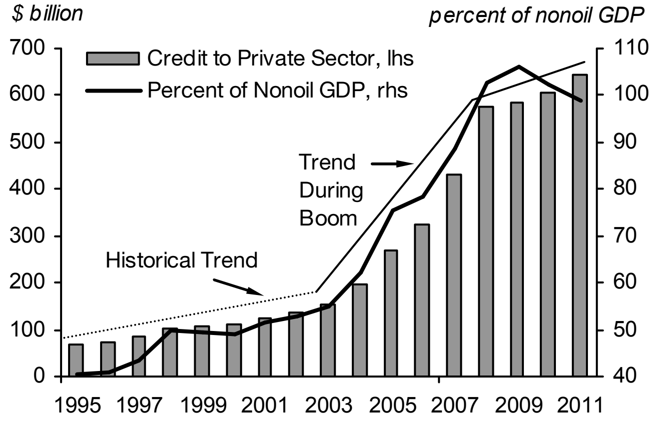


Chart 7
GCC: Consolidated Credit to the Private Sector
$ billion *percent of nonoil GDP*



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NO PRESSURE ON CURRENCIES' PEG TO DOLLAR

There is no pressure on the GCC currencies' peg to the dollar which is expected to be maintained at least until the monetary union is fully established. Forward rates point to no change for local currencies despite the recent strengthening of the dollar (Chart 8). The peg is widely considered as appropriate until the GCC economies achieve monetary union, when they can then revisit their options.

The peg to the dollar is viewed as having provided an anchor for the economies of the GCC and clarity to investors. It is easy to administer and does not require the institutions necessary for implementing an independent monetary policy. Such institutions would first need to be created, become effective, and establish credibility. Our analysis indicates that the actual real effective exchange rates (REER) appear to have been close to their estimated equilibrium in 2011.

CDS SPREADS NARROW, SUKUK ISSUE RECOVERS

CDS spreads for GCC sovereigns have narrowed in recent months, following their modest rise in 2011. Abu Dhabi's, Qatar's, and Saudi Arabia's CDS spreads remain the lowest among all Arab countries, and well below the average for other emerging economies. Dubai's CDS spread has narrowed in recent months, from 440 bps to 343 bps as of April 10, 2012 (Chart 9). Demand for GCC bond and sukuk issuance has improved significantly. Yields on sovereign bonds with maturity of 10 years now range between 3-4% for the GCC region, as compared with 2.3% for the U.S.

STRONG PERFORMANCE OF EQUITY MARKETS

Equity markets in Saudi Arabia and the UAE have outperformed those in other emerging economies so far in 2012. Saudi Arabia's equity market has risen by 17% since the start of the year, following a fall of 3% in 2011. Dubai's stock market has also rallied, rising by 24%. In comparison, the emerging markets' equity (MSCI index) rose by 12% from end-2011 to April 13, 2012 (Chart 10).

The Saudi authorities have recently allowed foreign companies to list securities on the kingdom's bourse, and opened up its stock market to foreigners. Tadawul (the Saudi Stock Index) is now trading at around 12.5 times earnings on a forward basis and paying a dividend yield of about 4%. This is better than the average for other emerging economies.

Chart 8
GCC: Currencies' Forward Premium Spreads
percent of spot prices, monthly averages

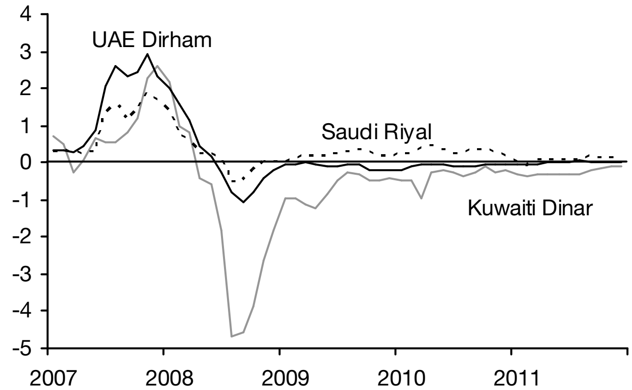


Chart 9
GCC: Sovereign 5 Year CDS
bps

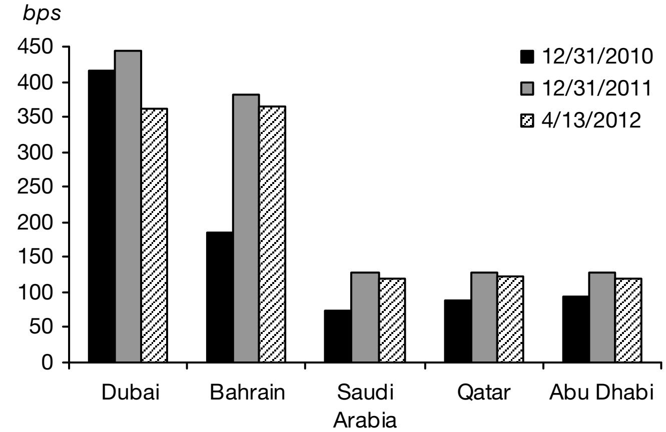
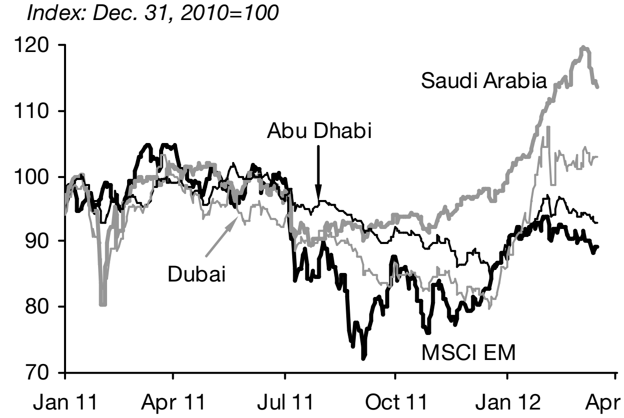


Chart 10
Stock Market Performance
Index: Dec. 31, 2010=100



Role of the GCC in the Energy Markets

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GCC IS THE LARGEST PRODUCER OF CRUDE OIL

The GCC remains the world's largest producer of crude oil, accounting for about 20% of global production and 40% of proven oil reserves (Table 5). Spare production capacity in the region is now between 2.5-3.0 million barrels per day (mbd), enabling the key countries, especially Saudi Arabia, to meet any possible shortfall in oil exports from Iran stemming from the sanctions. We expect the region's crude oil production to increase from an average of 16.5 mbd in 2011 to 17.3 mbd in 2012 to compensate for a likely reduction in supply from Iran as a result of the current sanctions.

Saudi Arabia's production has remained close to 10 mbd since September 2011, despite the recovery in Libyan supply and weaker global demand for oil. We expect aggregate crude oil production by the GCC to increase by 0.8 mbd, or an increase of 5% in 2012, if the reduction in Iran's oil exports is 0.8 mbd. However, it is likely that Saudi Arabia's oil production will increase further in the second half of this year to accommodate additional cuts in Iran's oil production.

BREAKEVEN PRICES BELOW CURRENT PRICES

The breakeven oil prices that would balance the projected budgets for 2012 are well below the projected average Brent oil price for this year for all the GCC countries (Chart 11). For Saudi Arabia, we expect the breakeven price to decline from $82/b in 2011 to $79/b in 2012, due to the continued increase in oil production and the projected small decline in total government spending, as a significant portion of last year's increase in spending is a one-time occurrence. The projected breakeven Brent oil price for Kuwait is $53/b; the UAE, $94/b; Russia, $128/b; and Iran, $135/b (assuming oil exports falls by one-third in volume terms).

GCC MAY OFFSET LOSS IN IRAN'S OIL PRODUCTION

The call on OPEC supply (global demand minus non-OPEC supply) is expected to increase by 0.35 mbd to 30.3 mbd in 2012. Our baseline scenario assumes that Iran's average crude oil exports or production will be reduced by 0.8 mbd in 2012. Saudi Arabia, the UAE and Kuwait could easily absorb such a loss by maintaining their current production through end-2012. This, combined with the recovery in Libyan oil output, will enable OPEC to increase its total output by 0.55 mbd in 2012.

Table 5
Crude Oil Production
million barrels/day

	2009	2010	2011	2012f	Spare Capacity*
GCC	14.8	15.1	16.5	17.3	2.85
OPEC Crude Oil	29.1	29.5	29.9	30.4	3.8
Saudi Arabia	8.2	8.3	9.2	9.7	2.5
Iran	3.7	3.6	3.5	2.6	0.0
Iraq	2.4	2.4	2.7	2.8	0.7
Libya	1.6	1.6	0.5	1.3	0.0
Other OPEC	13.2	13.6	14.0	14.0	0.7
OPEC NGLs	4.9	5.3	5.8	6.1	
Non-OPEC	51.6	52.6	52.7	53.2	
World Supply	85.5	87.4	88.4	89.7	

*Spare capacity as of end-2011

Chart 11
Breakeven Brent Oil Prices
$ per barrel

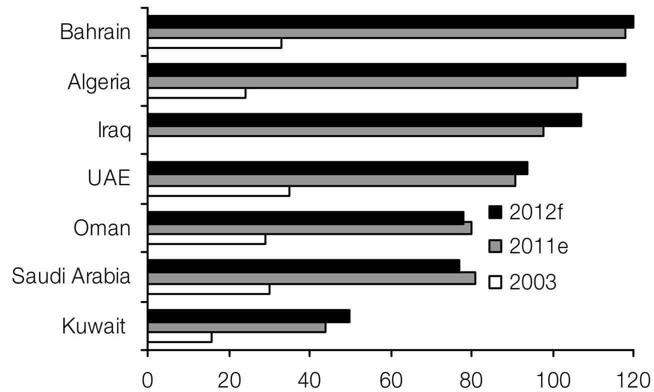
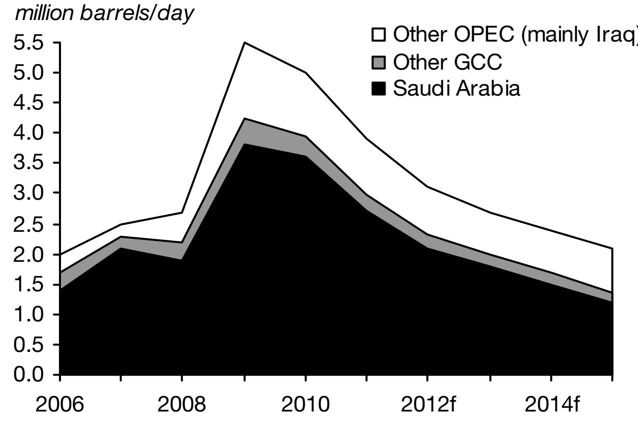


Chart 12
OPEC's Spare Productive Capacity
million barrels/day



Role of the GCC in the Energy Markets

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Global oil demand is expected to increase by 0.9 mbd to 90.35 mbd in 2012. OPEC's spare production capacity currently stands at around 3.2 mbd, of which Saudi Arabia makes up by far the largest share (Chart 12). Slightly more than one-third of the global increase in demand is projected to be met by OPEC. Over the medium term, more than half of this increase in the global production of crude oil is expected to come from Saudi Arabia and Iraq. More than 70% of GCC exports (largely crude oil) are destined for Japan and emerging and developing Asian countries (Chart 13).

Iran's exports go mainly to Asia but a substantial share is destined for the EU (Chart 14). Greece, Italy, and Spain combined accounted for 18% of total oil exports from Iran in 2011. These countries need to find other sources to replace the affected oil imports. Also, Iran needs alternative buyers for its crude, most likely in Asia and at a significant discount.

There is a small probability that the tensions around the sanctions against Iran will escalate to a military confrontation that would threaten the security of oil supplies from the Gulf region. Even in this case, it would be difficult for Iran to close the Strait of Hormuz for more than a few days. It should be noted that the Strait of Hormuz remained open to traffic during the Iran-Iraq war in the 1980s.

RISKS TO THE OUTLOOK

The risks to the outlook for the GCC countries are large although difficult to quantify. Political turbulence in the Arab countries, if it is prolonged, could spread and possibly infect the region with negative consequences. However, we do not attach a high probability to this risk.

Other risks arising from sanctions on Iran indicate ambiguous outcomes. On the one hand, a large drop in Iran's oil exports, but in the absence of a military confrontation, suggests an upside risk, since it would require significantly higher oil output from the GCC countries, raising the growth rate and lifting hydrocarbon receipts and government spending. However, an escalation of the crisis into a military conflict with Iran (even without necessarily the involvement of the GCC countries themselves) could bring about untold damage to the economies of the region.

Chart 13
GCC: Main Export Partners
percent of total exports

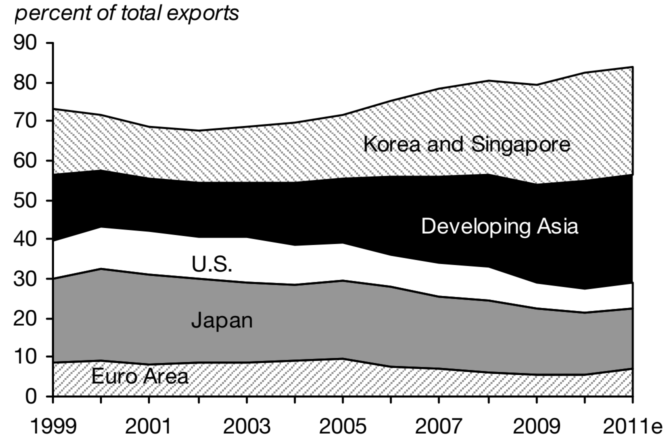


Chart 14
Iran: Direction of Oil Exports, 2011
total, 2.4 mbd

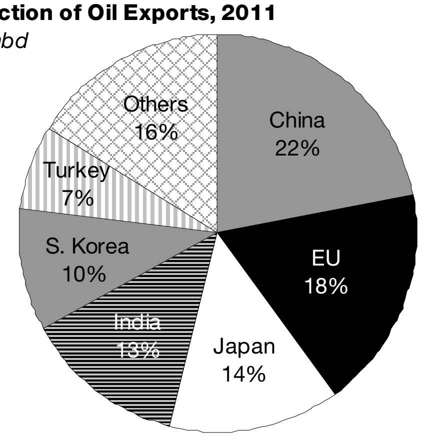
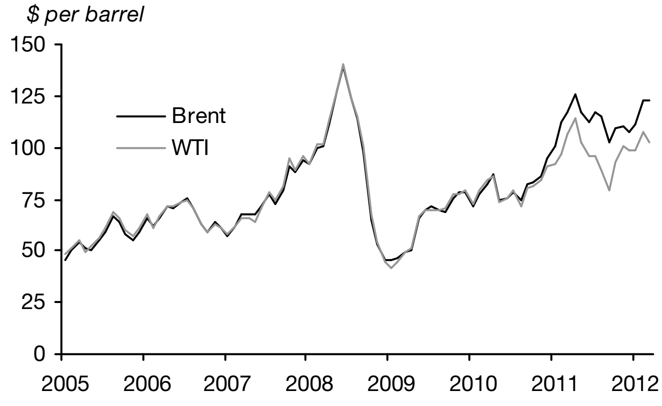


Chart 15
Crude Oil Prices
$ per barrel



Saudi Arabia

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CONTINUED STRONG GROWTH

Oil production is estimated to have increased by about 11% last year, rising from 8.3 mbd in 2010 to 9.3 mbd in 2011. Nonhydrocarbon growth has also been strong at 5.1%, driven by a substantial increase in public spending, which has spurred private sector activity (Table 6). As a result, we estimate an overall growth of 6.4% for 2011 (preliminary official estimate is 6.8%). Overall growth is expected at 5.0% in 2012. The HSBC Purchasing Managers' Index (PMI) suggests that private sector activity remains strong. The PMI averaged about 60 (close to the average for the first half of 2011). Other economic activity indicators in Q1 2012, including consumer spending, cement consumption, and imports, all point to nonhydrocarbon real growth remaining strong. Oil production is likely to remain close to the average of the first quarter of this year (9.8 mbd), resulting in an average increase of 7% in 2012.

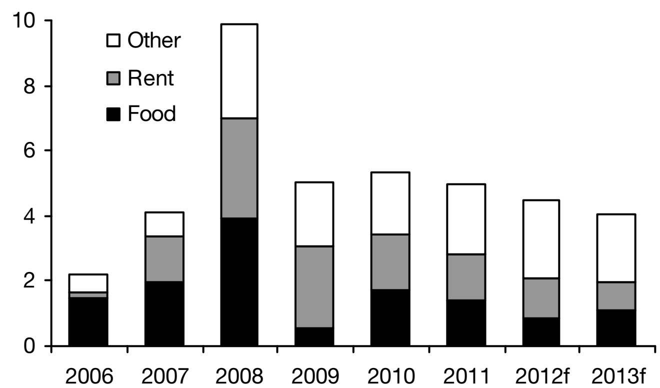
Table 6
Saudi Arabia: Selected Macroeconomic Indicators

	2009	2010	2011e	2012f	2013f
Real GDP, % change	0.1	4.0	6.4	5.0	4.3
Hydrocarbon	-7.8	2.2	9.8	5.6	2.3
Nonhydrocarbon	3.5	4.6	5.1	4.7	5.0
Consumer Prices, avg, %	5.1	5.4	5.0	4.5	4.0
Fiscal Balance, % GDP	-5.6	5.4	12.6	15.4	9.9
Current Acct. Bal., $ bn	21.5	67.1	154.6	165.8	119.3
% GDP	5.7	15.0	26.2	25.8	18.5
SAMA's Foreign Assets, $ bn	410	445	551	671	746
Crude Oil Production, mbd	8.2	8.3	9.2	9.8	10.0
Saudi Export Crude Price, $/b	63.4	77.7	106.9	110.1	101.0

RISING RENTS BEHIND PERSISTENT INFLATION

Limited inflationary pressures persist. The year-on-year CPI inflation rate was 5.4% in March 2012. The persistent inflationary pressures reflect local supply bottlenecks in affordable residential housing, with stronger domestic demand induced by high fiscal spending and buoyant private sector activity. Annual rental inflation remained high at 8.9% in March 2012, and in food at 5.1%. We expect the average inflation rate to decline gradually from 5% in 2011 to 4.0% by 2013. The surge in global nonfuel commodity prices has recently waned, and the increase in rental prices will decelerate as the supply of affordable housing improves (Chart 16).

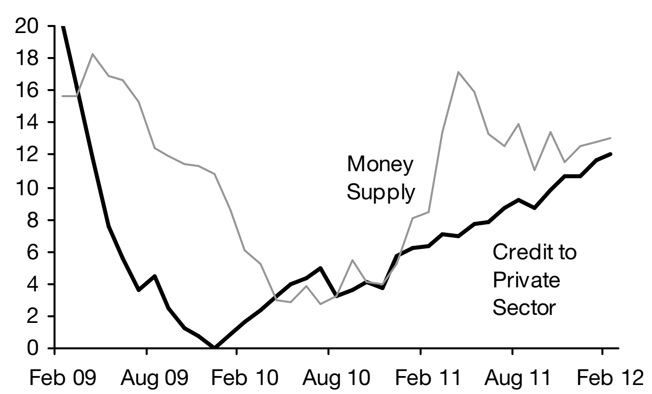
Chart 16
Breakdown of Consumer Prices
contribution to average inflation rate, percentage points



PRIVATE CREDIT ACCELERATES

The growth in credit to the private sector has accelerated from 5.7% at end-2010 to 11.7% in February 2012, yoy, on the back of abundant liquidity in the banking system and strong demand (Chart 17). Broad money supply (M3) rose by 13.8% in February 2012, yoy. Money in circulation and demand deposits (M1) have been the main source of liquidity growth over the past 12 months, reflecting the sizable transfers from the government to households in the form of the increase in the wage bill, unemployment benefits, and subsidies. The banking system was spared the strains that beset other jurisdictions in 2009/10 and remains well capitalized and highly liquid. NPLs to total loans have continued to decline to slightly less than 3% at end-2011.

Chart 17
Money Supply & Credit Growth
12-month percentage change



Saudi Arabia

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The loan-to-deposit ratio was 78% at end-February 2012 (the lowest among GCC countries). Foreign liabilities of commercial banks have declined from $25.3 billion at end-2011 to $20.1 billion at end-2011, mainly reflecting the ongoing deleveraging process by Euro Area banks.

EXTERNAL AND FISCAL SURPLUSES TO WIDEN

Higher oil prices and a sizable increase in crude oil exports in volume terms will widen the external current account surplus from $161 billion in 2011 to $178 billion in 2012, equivalent to 27% of GDP. Exports of oil are projected to increase from $329 billion in 2011 to $356 billion in 2012. Growth in imports is projected to decelerate from 18% in 2011 to 7% in 2012 due to the decline in global commodity prices and slower government spending. Net foreign assets (managed by SAMA) are projected to continue rising from $551 billion in February to $677 billion by end-2012 . Total government spending is likely to decline marginally in 2012 following an increase of 24% in 2011, which raised the expenditure-to-nonhydrocarbon GDP ratio from 77% in 2010 to 87% last year (Chart 18). A significant portion of last year's increase in spending comprises one-time transfers to public sector employees (a two-month bonus in the amount of SR35 billion) and transfers to financial institutions that are engaged in financing the housing sector and small and medium-sized enterprises (SMEs; Table 7). Excluding transfers, the projected increase this year would be 11%.

BREAKEVEN PRICE WILL DECLINE TO $77/b

Given the higher projected crude oil production and continued high prices against the small decline in total government spending, the breakeven Brent oil price that balances the budget will decline from $81 per barrel in 2011 to $77 per barrel in 2012 (Chart 19). Our calculation is based on the following: (i) average crude oil production of 9.9 mbd; (ii) an increase in domestic consumption of petroleum products of 5%; and (iii) a total government spending decrease of 2%.

SHIFTING INVESTMENT FROM OIL TO GAS

The plan to increase effective production capacity to 15 mbd by 2020 has been postponed, although the fields that could sustain such levels of production have already been identified. The authorities are now focusing on increasing the production of natural gas, refining, and other petrochemicals. Virtually all current production of natural gas is consumed domestically.

Chart 18
Government Spending
percent of nonhydrocarbon GDP

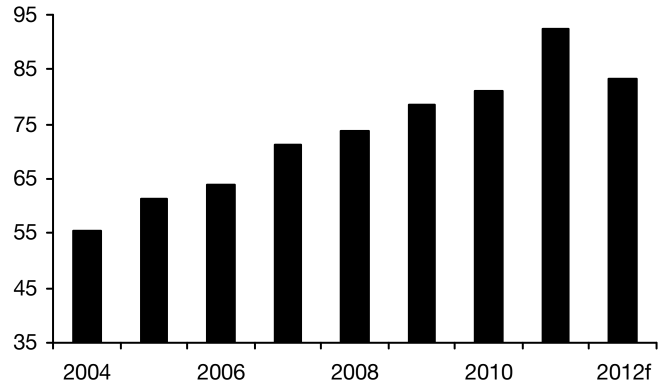
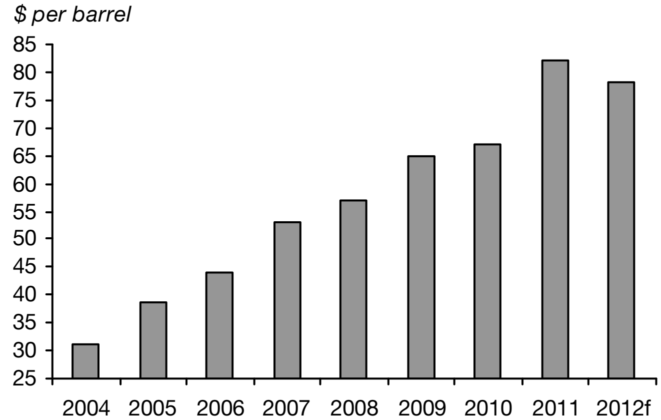


Table 7
Saudi Arabia: Fiscal Accounts of the Central Government

	2008	2009	2010	2011*	2012f
Revenue (SR billion)	1100	510	742	1105	1185
Oil	983	434	670	1024	1195
Nonoil	117	75	71	81	90
Expenditure (SR billion)	520	589	654	827	815
Current Expenditure	382	417	455	608	563
ow: Wages and salaries	190	210	248	257	270
Transfers**	0	6	9	92	13
Capital Expenditure	131	172	198	219	252
Overall Balance (SR billion)	580	-79	88	278	370
Overall Balance (% GDP)	32.5	-5.6	5.2	12.6	15.4

* IIF estimate based on partial information from the authorities
** Include two-month bonus salary to public employees and transfers to Real Estate Development Fund and Saudi Credit and Saving Bank.

Chart 19
Saudi Arabia: Breakeven Brent Oil Prices
$ per barrel



United Arab Emirates

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THE OUTLOOK REMAINS REASONABLY GOOD

Our estimates show that overall real GDP growth was 4.7% in 2011. This strong growth was driven by a sizable increase in crude oil production and solid growth in Dubai's core activities of trade, retail sales, and tourism, which have more than offset the continued retrenchment in the construction and real estate sectors (Table 8). We expect growth to moderate to 3.2% in 2012. Average crude oil production in Abu Dhabi is expected to increase by 3.3% in 2012, compared with an increase of 9% in 2011. Continued higher oil prices and fiscal surpluses have encouraged Abu Dhabi's Executive Council to press ahead with several of its large projects this year. This may more than offset a possible weakening of private sector investment and result in nonhydrocarbon growth of 3.3% in 2012. In contrast, we expect Dubai's real growth to decelerate from 3.2% in 2011 to 2.5% in 2012 as a result of weaker global prospects and the sanctions on Iran, which would adversely impact trade activity (Chart 20). Dubai is more vulnerable to global economic developments than Saudi Arabia, Qatar, Kuwait, and Abu Dhabi, due to its high debt, its diversified economy, and its strong links to global trade.

The CPI inflation rate is projected to remain subdued. Rents are expected to continue declining for the fourth year in a row, albeit at much lower pace. Also, world nonfuel commodity prices have recently moderated. These two factors will keep average CPI inflation around 1% this year for the UAE as a whole (Chart 21). While real estate prices appear to have reached a bottom, significant recovery could take a long time.

CREDIT TO PRIVATE SECTOR REMAINED MUTED

In the context of a pegged exchange rate, monetary policy remained accommodative. Overall growth in lending, however, remained in low single digits, as continued excess supply in the real estate sector and the high debt overhang in Dubai have subdued demand in 2011. Private sector credit grew by 2.7% while credit to public sector enterprises (mostly by Abu Dhabi-based banks) grew by 37%. This raised the share of credit to public entities in total loans from 7% in 2008 to 13% in 2011.

BANKING SYSTEM IS WELL CAPITALIZED

The banking system is well capitalized and continues to be profitable, although the carryover from the 2009 debt difficulties in Dubai, and from the global financial crisis, have

Table 8
UAE: Selected Macroeconomic Indicators

	2009	2010	2011e	2012f	2013f
Real GDP, % change	-3.7	3.2	4.7	3.2	3.2
Abu Dhabi Hydrocarbon	-8.5	4.6	8.3	3.3	1.3
Abu Dhabi Nonhydrocarbon	-1.3	3.1	3.0	3.3	4.0
Dubai	-4.0	-2.2	3.1	2.5	4.2
Consumer Prices, avg, %	1.8	0.6	0.9	1.0	2.1
Credit to Economy, % change*	1.2	0.7	3.4	4.7	6.0
Fiscal Balance, % GDP	-12.8	-2.1	4.6	4.8	1.7
Current Acct. Bal., % GDP	3.1	6.2	10.5	13.3	8.8
Foreign Assets, SWFs, $ bn	423	462	521	579	630
Foreign Liabilities, $ bn	100	104	99	98	101

*Credit to economy includes both private sector and public enterprises.

Chart 20
Main Export Partners
percent of total exports

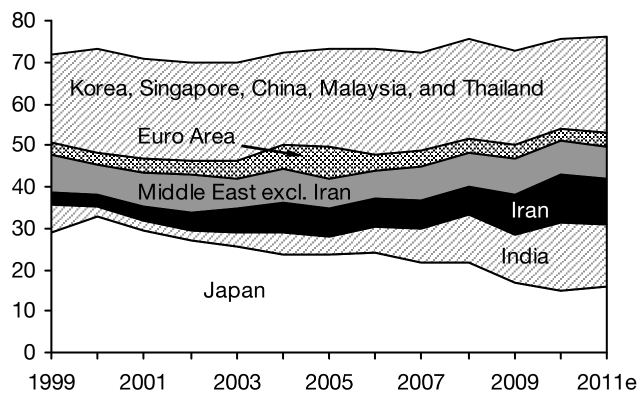
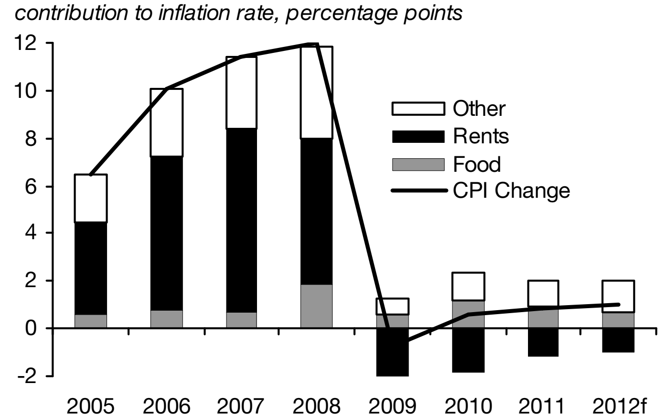


Chart 21
Components of Inflation
contribution to inflation rate, percentage points



United Arab Emirates

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left some weaknesses. The rise in impaired credit required an increase in bank provisions from the equivalent of $6.8 billion in 2008 to $19.5 billion in 2011. Current provisions cover 84% of NPLs, assuming that NPLs account for 8% of total loans (Table 9). The loan-to-deposit ratio peaked at 108% in 2008, but has now been brought down to 100%.

FISCAL BALANCE SHIFTS TO A SURPLUS

We expect government spending to increase by 14% this year. Salaries of federal government employees have recently increased by 35-100%. Spending on infrastructure in Abu Dhabi is expected to rise significantly following the recent decision of the Executive Council to implement several of its large-scale projects. Nonetheless, under the assumption of an average oil price of $114/b, the increase in hydrocarbon revenues will more than offset the rise in spending, leading to a fiscal surplus of 4.7% of GDP in 2012, as compared with 4.4% in 2011. Higher hydrocarbon exports will also strengthen the external position of the Emirates. We expect a current account surplus of $51 billion in 2012, or 13.3% of GDP (Chart 23). This, combined with an assumed return of 5% on investment, will lead to further growth in the SWFs' balances to a total of $580 billion by end-2012.

BREAKEVEN PRICE OF OIL WILL RISE TO $94/b

We estimate that the breakeven price of oil that balances the UAE consolidated budget will increase from $91/b in 2011 to $94/b in 2012. The main assumptions for calculating the breakeven oil price for 2012 are (i) a 3.3% increase in the production of oil and gas ; (ii) a return on investments of 5% (which is included in nonhydrocarbon revenue in the consolidated budget); and (iii) total consolidated government spending grows by 9%.

STRUCTURAL REFORMS TO RAISE GROWTH

Progress in structural reforms over the next few years, the strengthening of federal institutions, and the enhancement of transparency and governance could accelerate the pace of nonhydrocarbon growth to over 4% in the medium term. Dubai's excellent infrastructure and its prime location as a global hub for trade and tourism should continue to underpin diversification and growth. Abu Dhabi's resources, its considerable investments in modern infrastructure, energy and services should help sustain solid growth for the UAE over the medium term.

Chart 18
Total Loans and Deposits (regardless of residency)
12-month percent change

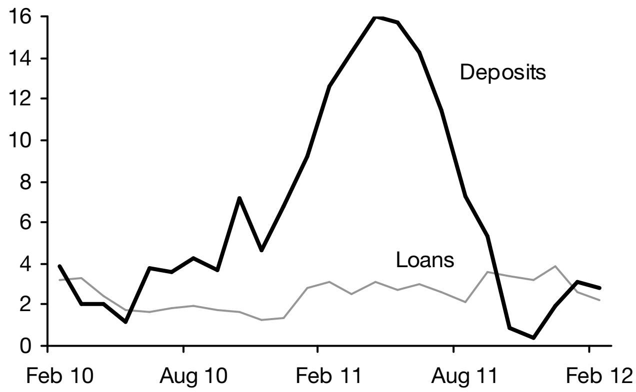
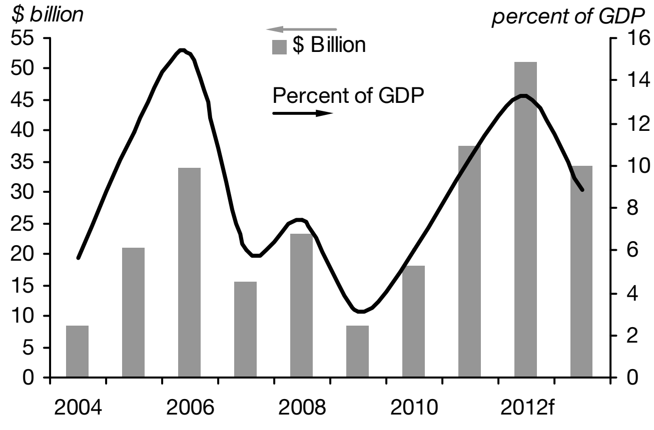


Table 9
UAE: Financial Sector Soundness Indicators
percent

	2007	2008	2009	2010	2011e
Capital to Risk-Weighted	14.0	13.3	19.2	20.8	21.0
o/w: Tier I	12.4	12.3	15.4	16.1	16.4
NPLs/Total Loans	2.9	2.5	4.8	6.5	8.0
Provisions to NPLs	100	101	85	84	84
Return on Assets	2.0	1.8	1.3	1.4	1.4
Return on Equity	19.3	15.6	7.9	8.4	8.5
Loans to Deposits	97.5	107.7	103.6	98.0	100.0

Chart 23
Current Account Balance
$ billion *percent of GDP*



Kuwait

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ROBUST GROWTH AND LARGE SURPLUSES

The Emiri-backed government, as well as women and progressive MPs, all suffered a crushing defeat in parliamentary elections, which came down in favor of Islamists and conservatives. Parliamentary opposition and scrutiny of government are thus unlikely to escalate. Consequently, Kuwait's KD31 billion, five-year (2010-14) development plan is likely to remain behind schedule as capital expenditures consistently fall below what is budgeted. This leaves real GDP highly sensitive to the volatile hydrocarbon sector.

In 2011, estimated real growth was 5%, led by a rise in oil output to an average of 2.5 mbd to compensate for lost Libyan supply. This, in addition to high oil prices, has pushed the current account surplus to approximately 33.5% of GDP (Chart 24). The nonhydrocarbon sector was a drag, growing by an estimated 3.2%. These conditions are expected to prevail in 2012: oil output and prices are unlikely to decline substantially due to a tight global market and elevated security concerns; political opposition will further delay development projects; and regional uncertainty will continue. We thus forecast that the 2012 real GDP growth will decline slightly to 4.1%. The inflation rate will also decline somewhat as commodity prices moderate, with the February 2012 12-month rate at 3.8%.

High oil prices and increased oil output also led to the highest fiscal surplus in the GCC as a percentage of GDP, estimated at 28% for FY 2011/12 (Chart 25). Social spending drove higher government expenditures as the authorities were sensitive to regional events. In March 2012, the government announced a further 25% rise in government salaries and a 12.5% increase for pensioners in response to strikes and demonstrations. However, this will be easily covered by oil revenue, leaving a substantial fiscal surplus in FY 2012/13.

Following capital injections in the wake of the global financial crisis, the banking sector has shown signs of improvement. The capital adequacy ratio has increased from 16.7% in 2009 to 18.5% in 2011, during which time the NPL ratio fell from 11.5% to 7.3% (Table 10). However, claims on the private sector rose only marginally in 2011, as banks limited their exposure to investment companies (ICs) that remain dependent on external financing. By December 2011, almost a quarter of ICs' liabilities reflected exposure to nonresidents.

Chart 24
Current Account
$ billion *percent of GDP*

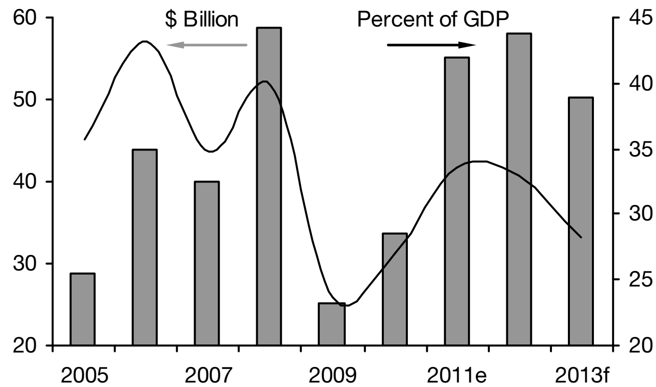

Chart 25
Fiscal Accounts
dinars billion

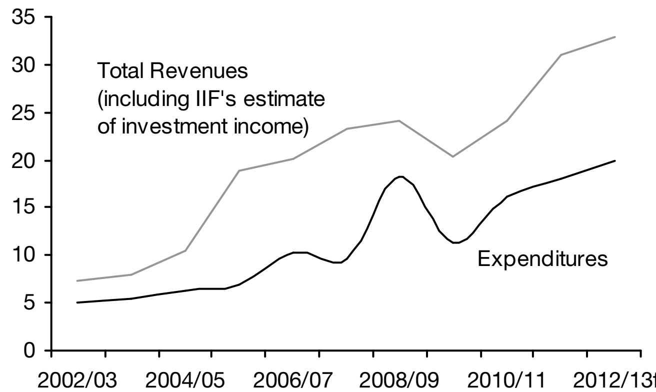

Table 10
Kuwait: Banking sector indicators

	2007	2008	2009	2010	2011
Regulatory Capital	19.3	15.6	16.7	18.9	18.5
ow: Tier 1	*17.2*	*14.3*	*14.9*	*17.3*	*16.9*
NPLs to Total Loans	3.8	6.8	11.5	8.9	7.3
Specific Provisions on NPL s	47.2	29	38.3	33.9	29.5
Return on Assets (ROAA)	3.3	0.8	0.7	1.2	1.1
Return on Equity (ROAE)	24.3	6.5	6.1	9.1	8.1
Liquid Assets to Total Assets	32.9	28.4	27.9	22.8	26.5
Loans to Deposits	103.1	109	113	116.5	110.9

Qatar

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HIGH GROWTH TO MODERATE

Toward the end of 2011, LNG production reached a maximum capacity of 77 million tonnes per year, more than doubling in three years (Chart 26). This is reflected in an increase of over 16% in real GDP last year, the sixth consecutive year it has recorded double digit growth (Chart 27). Growth in the nonhydrocarbon sector was also robust and in double digits for the sixth consecutive year. Additionally, higher oil prices, to which gas export prices are linked, and a 30% rise in LNG exports have enlarged the current account and fiscal surpluses for 2011. Further LNG production increases, however, are subject to a moratorium until 2015. As a result, we expect the economy to cool down considerably in 2012, with real GDP growth projected to slow to 8%.

Headline inflation remains subdued. The 12-month inflation rate was 1.2% in February 2012. Excluding rent, the inflation rate is around 4%. Rent, which accounts for 32% of the CPI basket, continues to decline for the third consecutive year. We expect average inflation to remain around 2% this year.

Additionally, lower policy rates (Chart 28), and an apparent retrenchment by European banks to shore up capital at home, contributed to a significant decline in official reserves in 2011. This does not, however, undermine Qatar's external position since the majority of its foreign assets are held with the country's SWF, the Qatar Investment Authority (QIA), estimated at around $200 billion.

The banking sector is well capitalized and profitable. The NPLs ratio was 2.0% at end-2011. Credit to the private sector grew at the fast rate of 16% in 2011.

Current LNG exports are subject to long-term contracts with buyers (20-30 years) where quantities are guaranteed on the supply and demand sides. Once the moratorium on LNG expansion expires in 2015, Qatar needs to reassess the global market, especially in light of major gas discoveries, such as those in the U.S. Assuming no significant LNG production increases, growth prospects beyond 2012 would primarily be a factor of government spending, especially on infrastructure in preparation for the World Cup in 2022. A general sense of optimism pervades the private sector as plans are being announced for large-scale development projects. It is expected that the tendering and signing of major projects will take place starting in 2013.

Chart 26
Hydrocarbon Production
thousand b/d of oil equivalent

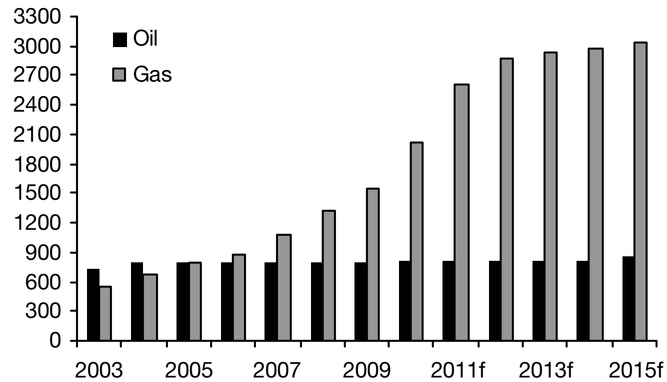


Chart 27
Real GDP Growth
percent change

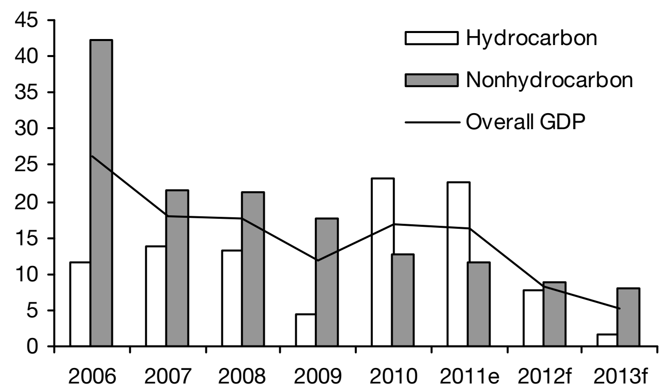
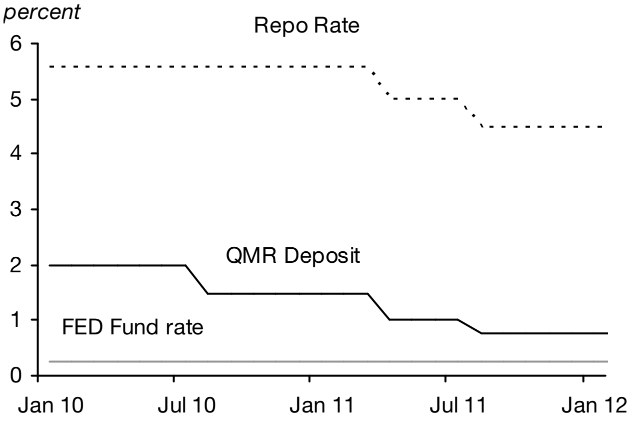


Chart 28
Interest Rates
percent



Oman

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OIL WINDFALL BEING PUT TO GOOD USE

The unrest last year had little impact on economic activity, but did result in some political reforms and an increase in government spending. We estimate that growth accelerated to 5.4% in 2011 from 4.2% the year before, driven by strong growth in the nonoil sector. All sectors performed well, with particularly strong growth evident in manufacturing, trade, transport and communications, and public administration.

Prospects for an acceleration in growth this year are encouraging. Unencumbered by OPEC quotas, oil production, which has risen steadily over the past four years, is projected to rise a further 3.3% in 2012 (Chart 29). Gas production, which is an important input into the growing downstream industries, rose 4.4% in 2011 and is expected to rise a further 8.3% this year. As a result, we expect real hydrocarbon GDP to expand by about 5% in 2012. Together with further rapid expansion in nonoil sectors, this suggests that real GDP growth could reach about 6.4% this year, This would be the fastest growth rate in the GCC after Qatar.

High oil prices have boosted export earnings and we estimate that the current account surplus roughly doubled to a record $10.6 billion in 2011, equivalent to over 14% of GDP. Nonoil exports also continued to grow at a rapid pace and they now account nearly 30% of total exports, compared with just 19% five years ago when oil prices were substantially lower (Chart 30). This reflects efforts in recent years to diversify the economy and develop downstream industries. This trend will continue with a new industrial area in Duqm being developed and further expansion of the tourism sector. Although this will likely result in continued strong import growth, a large current account surplus is likely again this year before tapering off to about 5% of GDP in 2013.

The budget has also benefited from the increase in oil prices. Despite strong growth in expenditure last year, reflecting an increase in hiring in the public sector, the introduction of unemployment benefits and an increase in spending on infrastructure projects, we estimate that the budget surplus rose to OR2.7 billion in 2011, about 9.5% of GDP. The budget for 2012, which is based on a conservative oil price of $75 per barrel, projects a deficit of OR1.2 billion. However, based on our own oil price forecast, we expect another sizable surplus in the region of 6.5% of GDP in 2012 (Chart 31).

Chart 29
Oil Production
thousand barrels per day

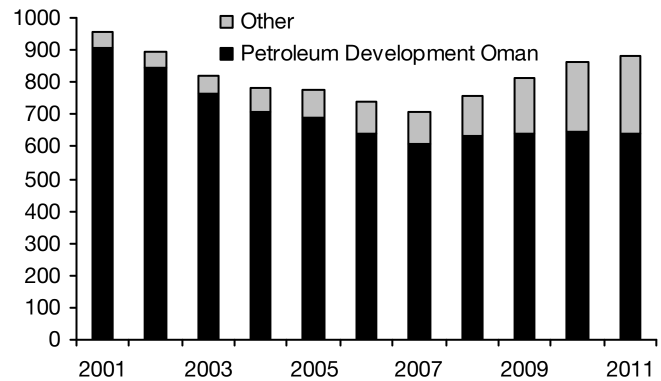


Chart 30
Hydrocarbon and Non-Hydrocarbon Exports
percent of total exports

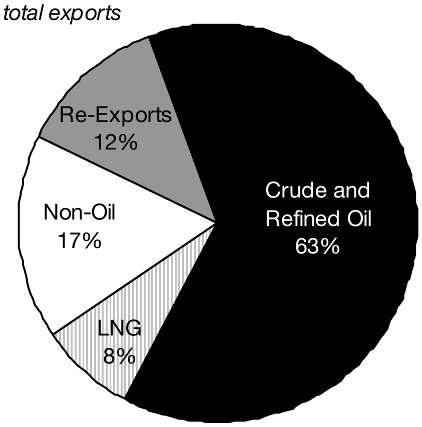
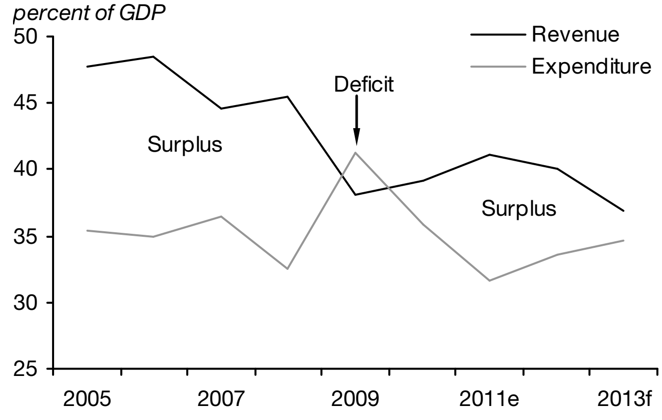


Chart 31
Fiscal Account
percent of GDP



Bahrain

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FISCAL VULNERABILITIES INCREASE

Activity was hit last year by demonstrations and unrest, which adversely impacted tourism, retail trade and the banking sector. The economy did not fall into recession, however, due to increased oil production at the onshore Awali field and continued growth in manufacturing. Higher oil prices also provided scope for increased government spending, which buoyed activity in the second half. For 2011 as a whole, we estimate that growth slowed to 2.2% from 4.5% a year ago.

Prospects for 2012 and 2013 are brighter, although continued simmering unrest and isolated outbreaks of violence suggest that growth is unlikely to return to levels in excess of 5% per year that were the norm before 2009. There are, however, some encouraging signs. The restoration of the F1 Grand Prix this year will provide a significant boost, both to economic activity as well as confidence, disbursements from the GCC Fund (set up last year to help Bahrain and Oman) will stimulate construction spending, and high oil prices and increased production will buoy government spending. As a result, we expect growth to rise to 3.3% in 2012, accelerating to about 4.6% next year as the recovery takes hold (Chart 32).

High oil and aluminum prices have underpinned the balance of payments, and the current account surplus rose to $3.0 billion in 2011, equivalent to an estimated 11.6% of GDP. The increase in the trade surplus more than offset the deterioration in services, income and transfers resulting from the slump in tourism, lower earnings from financial services, higher net income payments, and an increase in workers' remittances. Higher average oil prices in 2012 and further production gains suggest that the surplus will increase to about 14% of GDP this year before falling back to just under 12% in 2013.

The biggest vulnerability is on the fiscal side. No final budget data have been released for 2011, but we estimate that the deficit narrowed from 5.6% of GDP in 2010 to about 2% of GDP last year. Spending was ramped up following the outbreak of unrest and a number of large one-off payments was authorized (Chart 33). This partly offset the sharp increase in revenue, and meant that the breakeven Brent oil price that would have balanced the budget rose to nearly $120/b. The government debt-to-GDP ratio, which has more than tripled since 2008, now stands at around 30% and is likely to continue to climb going forward (Chart 34).

Chart 32
Real GDP Growth
percent

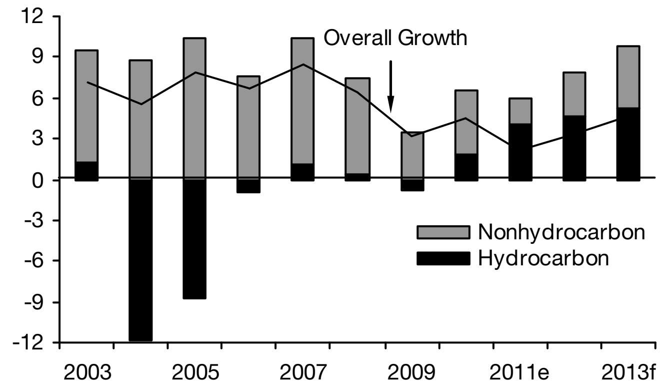


Chart 33
Budget Balance
percent of GDP

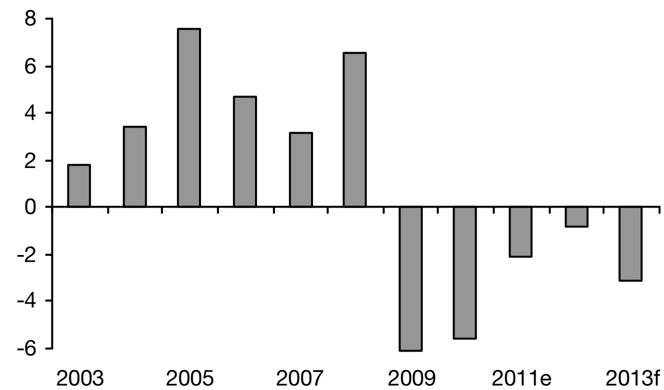
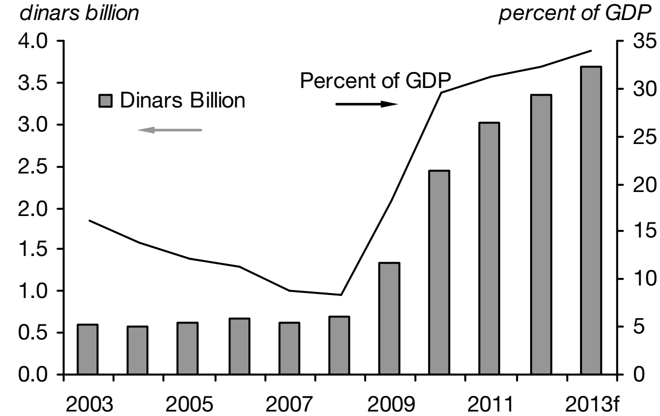


Chart 34
Public Debt
dinars billion *percent of GDP*



Country Tables

Table 11
Saudi Arabia: Main Economic and Financial Indicators

	2006	2007	2008	2009	2010	2011e	2012f	2013f
Saudi Oil Export Price, $/b	61.8	68.8	95.2	63.4	77.7	106.9	110.1	101.0
Crude oil Production, mbd	9.21	8.82	9.20	8.18	8.34	9.24	9.79	10.01
Gas Production, oil equivalent mbd	1.26	1.25	1.27	1.30	1.32	1.37	1.37	1.41
Economic Activity								
Nominal GDP, $ bn	357	385	477	377	448	590	643	644
o/w: Hydrocarbons, $ bn	192	211	289	177	233	351	382	358
Real GDP, % change	3.2	3.3	4.2	0.2	4.0	6.4	5.0	4.3
Hydrocarbon	-0.8	-3.6	4.2	-7.8	2.2	9.8	5.6	2.3
Nonhydrocarbon	5.1	4.7	4.3	3.5	4.6	5.1	4.7	5.0
Private	5.5	5.5	4.6	2.7	4.3	4.9	4.6	5.0
Government	3.1	3.0	3.7	5.0	5.2	5.6	5.0	5.1
Prices and Monetary, % change								
Consumer Price Index, average	2.3	4.1	9.9	5.1	5.4	5.0	4.5	4.1
Broad Money	19.3	19.6	17.6	10.8	4.9	13.3	12.7	12.5
Private Sector Credit Growth, %	9.2	21.4	27.1	-0.1	5.7	10.6	13.2	14.3
Banking financial indicators, %								
Tier 1 Capital Adequacy Ratio	18.1	16.4	16.0	16.5	16.8	17.1	…	…
NPLs to Total Loans	2.0	2.1	1.4	3.3	3.4	2.7	…	…
Provisions to NPLs	182	143	153	90	100	110	…	…
Loan-to-Deposit Ratio	81	81	78	78	78	78	…	…
Credit to Private Sector, % GDP	36	40	41	52	46	39	40	41
External Sector ($ bn, unless otherwise indicated)								
Exports	211	233	313	192	251	366	392	366
Oil	188	205	281	163	215	321	344	316
Nonoil	23	28	32	29	36	45	48	50
Imports	64	82	101	86	97	114	122	134
Current Account Balance	99	94	134	21	67	154	166	119
% GDP	27.8	24.5	28.1	5.7	15.0	26.2	25.8	18.5
External Debt	58	89	97	100	104	99	98	100
Total Foreign Assets	311	415	549	534	585	712	835	912
Official Reserves, $ bn	226	305	442	410	445	551	671	746
Foreign Assets of Banks	35	39	41	56	58	61	64	67
AGI's foreign assets	51	71	66	69	82	99	99	98
Fiscal Accounts, % GDP								
Government Revenue	50.8	44.6	61.6	36.1	44.2	50.0	49.2	45.8
o/w: Oil	45.3	39.0	55.0	30.8	39.9	46.4	45.4	41.7
Expenditure	29.4	32.3	29.1	41.7	38.9	37.4	33.8	35.9
Overall Fiscal Balance	21.4	12.2	32.5	-5.6	5.2	12.6	15.4	9.9
Government Debt	27.8	18.5	13.3	16.0	9.9	6.3	5.7	5.5
Memoranda:								
Population, million	24.2	24.8	25.6	26.3	27.1	27.9	28.7	29.6
Unemployment Rate, %	12.0	11.0	9.8	10.5	10.2	11.0	10.5	9.6
Stock Market, % change	-52.5	39.2	-56.5	27.5	8.2	-3.1	…	…
Stock Market Capitalization, $bn	327.4	519.6	246.7	319.4	353.8	339.4	…	…

Country Tables

Table 12
UAE: Main Economic and Financial Indicators

	2006	2007	2008	2009	2010	2011e	2012f	2013f
Brent Oil Price, $ per barrel	66.3	72.6	98.3	62.3	80.2	110.9	114.1	105.0
Crude Oil Production, mbd	2.60	2.52	2.59	2.35	2.39	2.55	2.62	2.67
Gas Production, oil equivalent mbd	0.84	0.87	0.87	0.89	0.93	0.99	1.03	1.05
Economic Activity								
Nominal GDP, $ bn	222.1	258.2	314.8	270.3	300.1	362.7	384.7	389.1
o/w: Hydrocarbons, $ bn	83.0	87.2	116.5	78.2	102.0	156.7	170.4	161.2
Real GDP, % change	12.8	6.0	4.8	-3.7	3.0	4.7	3.2	3.2
Hydrocarbon	5.2	-0.3	1.8	-8.5	4.0	8.2	3.5	1.3
Nonhydrocarbon	17.5	9.5	6.3	-1.3	2.5	3.1	3.0	4.2
Abu Dhabi	8.5	8.7	7.0	2.6	3.5	3.0	3.4	4.1
Dubai	12.5	9.4	5.7	-4.5	1.7	3.1	2.7	4.3
Prices and Monetary, % change								
Consumer Price Index, average	9.3	11.1	12.3	1.8	0.6	0.9	1.0	2.1
Broad Money	23.2	41.7	19.2	9.8	6.2	5.0	5.9	7.6
Ctredit to Private Sector	32.9	37.6	46.4	1.2	0.7	3.4	4.5	6.0
Credit to Public Enterprises (GREs)	33.1	37.5	23.5	37.8	13.4	34.4	30.0	30.0
Banking Indicators, %								
Capital Adequacy Ratio	16.6	14.4	13.0	19.2	20.8	20.8	…	…
NPLs to Total Loans	5.2	2.9	2.3	5.2	7.0	8.0	…	…
Provisions to NPLs	81.8	100.0	109.4	81.8	78.7	83.6	…	…
Return on Assets	1.5	2.0	2.1	1.5	1.4	1.5	…	…
Return on Equity	12.1	19.3	17.3	12.1	12.1	12.1	…	…
Loan-to-Deposit Ratio	103.6	95.0	107.7	103.6	98.3	100.1	…	…
External Sector, $ bn								
Exports	145.6	178.7	240.1	192.5	229.4	298.7	309.9	307.5
o/w: Hydrocarbons	70.1	73.8	102.9	68.2	85.8	130.7	140.3	129.3
Imports	-88.1	-132.1	-176.3	-149.7	-170.9	-213.3	-211.4	-220.2
Current Account Balance	33.9	15.5	23.3	8.4	18.0	37.6	51.2	34.2
External Debt	66.7	106.0	116.8	115.8	117.8	120.8	124.4	129.0
Foreign Assets	469.2	563.6	480.1	504.4	557.9	624.0	689.8	747.8
Official Reserves	28.0	77.0	32.0	25.0	32.0	36.0	44.0	50.0
Foreign Assets of Banks	63.0	54.0	55.0	57.0	64.0	68.0	68.0	68.0
SWFs*	378.0	433.0	393.0	423.0	462.0	520.0	578.0	630.0
Fiscal Accounts, % GDP								
Revenue	33.8	33.0	38.5	25.3	28.3	33.3	34.2	32.3
o/w: Oil	26.6	24.6	31.3	17.5	21.1	26.7	27.0	24.8
Expenditure	15.6	17.7	22.0	37.5	30.7	28.9	29.5	30.7
Overall Fiscal Balance	18.2	15.3	16.5	-12.2	-2.4	4.4	4.7	1.6
Memoranda:								
Population, million	4.23	4.49	4.77	4.90	5.05	5.25	5.46	5.68
Stock Market, Abu Dhabi, % chg.	-42.3	51.7	-47.5	14.8	-0.9	-11.7	…	…
Stock Market, Dubai, % change	-44.4	43.7	-72.4	10.2	-9.6	-17.0	…	…

*Includes ADIA, Dubai's SWF, IPIC and Mubadala.

Country Tables

Table 13
Kuwait: Main Economic and Financial Indicators

	2006	2007	2008	2009	2010	2011e	2012f	2013f
Crude Oil Production, mbd	2.64	2.57	2.68	2.27	2.29	2.49	2.66	2.71
Nominal GDP, $ bn	101.6	114.6	147.4	105.9	124.3	164.3	175.9	174.9
o/w: Hydrocarbons	56.8	60.0	87.4	52.1	63.8	96.4	104.3	98.8
Real GDP, % change	5.2	4.4	4.7	-4.8	3.1	5.0	4.1	2.8
Hydrocarbon	2.8	-2.6	3.3	-11.0	3.2	8.2	6.1	2.1
Nonhydrocarbon	7.0	9.2	5.6	-1.0	3.0	3.2	3.0	3.2
Inflation Rate, average, %	3.1	5.5	10.6	4.0	4.1	4.7	3.1	3.1
Broad Money	21.7	19.1	15.8	13.4	3.0	8.5	8.0	9.5
Credit to Private Sector, % change	22.5	31.9	16.9	6.3	2.4	4.7	6.0	7.0
Exports, $ bn	56.0	62.5	87.3	54.0	67.1	96.2	105.2	99.8
o/w: Hydrocarbons	53.2	59.0	82.6	48.9	61.8	89.6	98.1	92.1
Imports, $ bn	-17.2	-21.3	-24.8	-20.3	-22.4	-24.2	-26.2	-27.2
Current Account Balance, $ bn	43.9	39.9	58.7	25.1	33.6	55.0	58.1	47.3
External Debt, $ bn	30.9	57.6	52.9	40.9	31.1	26.1	22.1	26.1
Foreign Assets, $ bn	302.6	370.7	331.2	341.8	373.3	430.9	491.9	549.6
Government Revenue, % GDP	66.6	67.9	64.3	64.2	63.1	67.1	67.0	61.4
o/w: Hydrocarbon	48.0	51.6	52.8	52.2	52.3	57.5	57.4	51.6
Government Expenditure, % GDP	34.1	28.2	48.9	35.4	42.6	38.9	40.9	44.5
Fiscal Balance, % GDP	32.5	39.6	15.4	28.8	20.5	28.1	26.1	16.9
Population, millions	3.18	3.40	3.44	3.48	3.58	3.66	3.74	3.86

Table 14
Qatar: Main Economic and Financial Indicators

	2006	2007	2008	2009	2010	2011e	2012f	2013f
Crude Oil Production, mbd	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Gas Production, oil equivalent mbd	0.9	1.1	1.4	1.6	2.2	3.0	3.1	3.2
Nominal GDP, $ bn	60.9	79.7	115.3	97.8	127.3	178.0	190.4	191.6
o/w: Hydrocarbons, $ bn	32.3	41.2	63.3	43.8	65.9	108.3	113.2	107.9
Real GDP, % change	26.2	18.0	17.7	12.0	16.6	18.0	5.6	4.9
Hydrocarbon	11.7	13.8	13.2	4.5	28.8	29.7	2.5	1.0
Nonhydrocarbon	42.1	20.6	21.3	17.6	8.4	8.7	8.5	8.5
Inflation Rate, average, %	11.8	13.6	15.2	-4.9	-2.4	1.9	2.1	2.5
Current Account, $ bn	9.7	16.4	32.7	10.3	35.0	55.0	50.0	42.8
External Debt, $ bn	26	42	57	84	108	115	118	120
Foreign Assets, $ bn	71	90	88	102	141	185	234	276
Government Revenue, % GDP	38.8	40.6	33.6	47.5	33.6	34.4	34.1	36.0
o/w: Hydrocarbon	25.0	24.4	19.1	23.3	20.9	21.3	20.0	19.9
Expenditure, % GDP	30.3	29.7	23.6	32.3	30.7	25.7	27.6	31.3
Fiscal Balance, % GDP	7.9	9.8	10.3	14.1	2.9	8.8	6.5	4.7
Population, millions	1.0	1.2	1.6	1.6	1.7	1.7	1.8	1.9

Country Tables

Table 15
Oman: Main Economic and Financial Indicators

	2006	2007	2008	2009	2010	2011e	2012f	2013f
Crude Oil Production, mbd	0.68	0.65	0.67	0.71	0.76	0.78	0.81	0.81
Nominal GDP, $ bn	36.8	41.9	60.6	46.9	57.8	73.7	82.0	83.4
Real GDP, % change	4.6	6.7	12.8	1.1	4.2	5.4	6.4	5.7
Hydrocarbon	-4.4	-5.0	7.6	6.2	6.7	3.2	5.0	1.5
Nonhydrocarbon	9.8	12.6	15.1	-0.9	3.2	6.4	7.0	7.5
Inflation Rate, average, %	3.4	5.9	12.4	3.5	3.3	4.0	3.1	3.3
Broad Money, % change	22.3	37.2	23.1	4.7	11.3	12.2	13.1	14.3
Credit to economy, % change	20.0	30.8	43.0	5.6	9.9	12.7	13.2	14.5
Current Account, $ bn	5.7	2.5	5.0	-0.6	5.1	10.6	10.5	4.3
External Debt, $bn	8.8	11.2	12.3	11.6	11.7	12.2	12.8	13.3
Foreign Assets, $bn	15.1	20.7	25.2	24.7	25.7	28.7	34.4	38.5
Government Revenue, % GDP	48.6	44.6	45.4	38.1	39.1	41.1	40.0	36.9
o/w: Hydrocarbon	40.3	35.7	38.4	29.6	32.6	35.6	34.7	31.3
Government Expenditure, % GDP	34.9	36.5	32.5	41.2	35.8	31.6	33.5	34.6
Fiscal Balance, % GDP	13.7	8.1	13.0	-3.1	3.3	9.5	6.5	2.3
Population, mn	2.6	2.7	2.9	3.2	2.8	2.9	3.1	3.2
Stock Market, % change	14.5	61.9	-39.8	17.0	6.1	-15.7	…	…
Market Capitalization, $ bn	16.2	26.7	20.6	23.6	28.4	26.1	…	…

Table 16
Bahrain: Main Economic and Financial Indicators

	2006	2007	2008	2009	2010	2011e	2012f	2013f
Crude Oil Production, mbd	0.18	0.18	0.18	0.18	0.18	0.19	0.20	0.21
Nominal GDP, $ bn	16	18	22	20	22	26	28	29
Real GDP, % change	6.7	8.4	6.3	3.1	4.5	2.2	3.3	4.6
Hydrocarbon	-1.0	1.1	0.4	-0.8	1.8	4.0	4.7	5.3
Nonhydrocarbon	7.7	9.2	7.0	3.5	4.8	2.0	3.2	4.5
Inflation Rate, average, %	2.1	3.3	3.3	2.8	1.9	-0.4	1.2	2.3
Broad Money, % change	15.1	39.1	19.8	5.8	10.5	1.7	4.2	6.0
Private Sector Credit, % change	19.0	39.0	43.0	-0.7	6.2	13.5	14.0	14.0
Current Account, $ bn	2.2	2.9	2.1	0.4	0.6	3.0	3.9	3.5
External Debt, $bn	9.1	26.5	34.2	28.8	28.8	27.5	28.0	29.0
Foreign Assets, $bn	11.3	32.3	37.8	34.5	35.7	35.0	36.8	39.0
Government Revenue, % GDP	30.9	29.3	32.1	23.2	26.4	30.2	29.6	26.7
o/w: Hydrocarbon	23.8	23.5	27.4	19.2	22.5	27.1	26.7	24.0
Government Expenditure, % GDP	26.1	26.2	25.6	29.2	32.0	32.3	30.4	29.8
Fiscal Balance, % GDP	4.7	3.1	6.6	-6.0	-5.6	-2.1	-0.8	-3.1
Population, million	0.96	1.04	1.10	1.18	1.23	1.28	1.34	1.41
Stock Market, % change	1.0	24.2	-34.5	-19.2	-1.8	-20.1	…	…