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IIF forecasts recession in countries subject to political turmoil, Expects most Arab oil exporters to generate major financial surpluses

Byblos Bank Headquarters, 11 May 2011: The Institute of International Finance (IIF) launched during a press conference held at Byblos Bank Headquarters in Ashrafieh, its first economic report on the Arab world, which provided 2011 and 2012 forecasts and analysis for the Gulf Cooperation Council (GCC), non-GCC oil exporters, and oil importers in the region. The Washington, D.C.-based IIF is the leading global association of financial services firms with more than 430 member institutions.

The report, launched in cooperation with Byblos Bank and titled *The Arab World in Transition: Assessing the Economic Impact*, considered that the popular uprisings in the Arab world represent a historic turning point and could constitute a transition from decades of authoritarian rule, weak institutions and poor governance, mediocre growth, and chronic unemployment.

The report noted that Arab oil exporters (except Libya and Yemen) will see a surge in revenues from higher oil prices and a pickup in economic growth, while oil-importing countries will experience slower growth and weaker fiscal and external outcomes. The IIF projected growth in the GCC to accelerate from 5.1% in 2010 to 6.5% in 2011, driven by expansion in crude oil production and larger increases in public spending. Further, the GCC's combined current account surplus is set to surge from $129 billion in 2010 to $292 billion in 2011, raising the level of their foreign assets to $1.7 trillion by year end. The IIF based its projections on estimated average oil prices of $115 and $110 per barrel respectively for 2011 and 2012, up from $80 per barrel in 2010.

Dr. Garbis Iradian, Deputy Director, Middle East and Africa Department at the IIF, said that for oil importers as a group, the economic toll from the political upheaval will translate into a contraction of 0.5% in real GDP in 2011, and the rebound in 2012 crucially depends on the regional unrest coming to an end in the next few months. Output this year in Egypt, Tunisia, and Syria is expected to contract between 1% and 3%, while growth in Lebanon and Jordan will decelerate from 7% and 3.1% in 2010, respectively, to 4% and 2.8% in 2011. Higher oil prices, higher inflation, lower foreign investment and a "dead" tourist sector would hit all Arab oil importers.

Dr. Iradian noted that the domestic political paralysis has deprived Lebanon from a golden opportunity of being a safe haven for the Arab world. He said the turmoil in the Arab world could have boosted the Lebanese economy through the diversion of some of the regional trade, tourism, and finance. "In the absence of a new government, tourist arrivals and foreign direct investment are projected to decline significantly this year, and urgent reforms (including addressing the bottlenecks in the energy, telecommunications, transportation, and water sectors) will be postponed, jeopardizing prospects for rapid medium-term growth.”

Nassib Ghobril, Chief Economist and Head of Economic Research and Analysis Department at Byblos Bank, said "this is the first time in Lebanon's recent history that the country faces both domestic political instability and unprecedented regional uncertainties. This convergence of trends is affecting economic activity significantly, and is leading to lower growth rates and to the deterioration in public finances." He added that "when Lebanon was going through severe political turmoil from early 2005 to mid-2008, the Arab world in general, and the GCC in particular were expanding at rapid rates, which was reflected positively on the Lebanese economy in terms of capital inflows, especially remittance and deposit flows, the expansion of the real estate sector, and high levels of consumption. Also, when the global financial crisis erupted in September 2008, Lebanon had restored political stability, which helped the economy benefit from the regional financial and economic turmoil." He noted, however, that "in the current circumstances, the Lebanese economy is facing both domestic and regional instability, which is taking its toll on most economic sectors."

Consequently, the IIF projected real GDP growth in Lebanon to decelerate from an estimate of 7% in 2010 to 4% in 2011. It forecast the fiscal deficit to widen from 7.5% of GDP in 2010 to 9.5% in 2011 due to weaker tax revenue, particularly taxes from property and gasoline, as a result of the slowdown in construction activity and a 50% reduction in the excise tax on gasoline in February. It added that risks to the stability of the exchange rate and the banking system will remain minimal. The report noted that the current level of official exchange reserves of $30 billion, plus gold holdings at Banque du Liban (valued at about $13.5 billion), exceed the estimated GDP for 2010. Also, the banking system remains sound with a high level of liquidity.

Dr. Iradian added that the oil-importers in the region face considerable downside risks to growth. He said that the political reform process is unlikely to be smooth and could drag on beyond 2011, further delaying investment decisions and slowing any economic recovery.

Summary Table: Arab World Outlook

	GDP ($ bn)	Real GDP Growth (% change)			CPI Inflation (Average, %)		Fiscal Balance (% GDP)		CA Balance (% GDP)	
	2010e	2010e	2011f	2012f	2010	2011f	2010e	2011f	2010e	2011f
Arab World	**1911**	**4.6**	**4.7**	**4.6**	**4.6**	**5.7**	**2.5**	**6.7**	**6.4**	**13.1**
GCC	**1024**	**5.1**	**6.5**	**4.3**	**2.9**	**4.4**	**8.0**	**13.2**	**12.5**	**21.9**
Bahrain	23	4.5	2.9	5.2	1.9	2.4	-6.6	1.3	3.4	11.0
Kuwait	127	2.0	4.4	4.3	4.0	6.2	28.9	31.2	30.7	40.4
Oman	57	4.8	4.6	5.0	3.3	3.7	3.2	11.9	11.6	21.9
Qatar	129	18.5	18.1	6.1	-2.4	3.0	11.9	10.6	16.8	26.4
Saudi Arabia	437	3.5	5.3	3.8	5.4	5.7	7.2	12.7	8.9	19.8
UAE	251	2.7	3.8	4.0	0.6	1.9	-0.9	7.1	8.6	14.1

Other Oil Exporters	**409**	**3.6**	**5.2**	**6.0**	**6.01**	**7.2**	**-1.4**	**2.4**	**3.7**	**7.2**
Algeria	149	3.2	3.3	3.6	4.3	5.1	-2.6	2.7	7.5	16.0
Iraq	81	0.8	11.0	11.3	4.5	5.1	-11.4	6.4	-7.2	2.6
Libya*	83	4.6	...	...	2.5	...	13.0	...	19.8	...
Sudan	66	5.0	4.5	5.0	13.0	12.0	-3.0	-1.0	-8.0	-4.2
Yemen	30	7.0	-4.0	3.0	12.0	15.0	-4.5	-7.0	-4.3	-4.7
Oil Importers	**478**	**4.4**	**-0.5**	**4.2**	**7.2**	**8.1**	**-6.0**	**-7.5**	**-4.3**	**-5.7**
Egypt**	218	5.0	-2.5	4.2	11.7	11.5	-8.1	-9.4	-2.0	-2.5
Jordan	28	3.1	2.8	4.0	5.0	6.1	-5.4	-6.7	-4.3	-9.0
Lebanon	39	7.0	4.0	5.7	4.4	6.5	-7.5	-9.5	-16.1	-18.1
Morocco	90	3.4	3.3	4.5	1.0	3.3	-4.5	-5.2	-4.8	-5.9
Syria	60	3.5	-3.0	2.0	4.5	8.0	-3.1	-5.0	-4.5	-5.4
Tunisia	44	3.4	-1.5	5.2	4.5	4.2	-1.4	-4.5	-4.7	-7.5

e = IIF estimate; f = IIF forecast

* Absence of projections for Libya due to lack of political certainty.

** Egypt growth rates have been adjusted to a calendar year basis to make them consistent with other countries, while figures for inflation and the fiscal and current accounts are on a fiscal year basis.