

MIDDLE EAST AND NORTH AFRICA REGION

2006

Economic
Developments
and Prospects

FINANCIAL

MARKETS IN A

NEW AGE OF OIL



THE WORLD BANK

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Foreword

MENA ECONOMIC DEVELOPMENTS AND PROSPECTS 2006

2005 was a year of major developments in the Middle East and North Africa (MENA) region. A few events made international headlines during 2005: oil prices hitting record levels, the continuing turmoil in Iraq, building tensions regarding the nuclear policy of the Islamic Republic of Iran, the aftermath of political upheaval in Lebanon, and the uncertain political situation and aid implications in the West Bank and Gaza. But many of the developments that have not made headlines—the deteriorating impact of high oil prices on nonoil producers in the region, increasing moves by oil producers to channel windfalls into longer-term assets, and progress with structural reforms—have been just as important in determining the direction of the economies in the MENA region.

With oil prices continuing their soaring advances, the efficiency with which the region channels its oil-related resources into the real economy will depend critically upon the region's financial sectors. It is thus particularly opportune to examine the state of the

region's financial systems and to understand how they contribute to growth, promote efficiency, and enhance productivity: through corporate governance, through savings mobilization, and through their ability to protect against systemic shocks.

This is the second volume in a new series of annual reports on the MENA region. Its aim is to shed light on recent key economic developments in the region and the forces underlying the region's economic outcomes. It analyzes the region's medium-term growth prospects, given global forecasts, and (building on last year's issue) the report continues to chart the region's progress in implementing comprehensive structural reforms for longer-term growth. Also, in this second issue, the important topic of MENA's financial markets is highlighted to understand how financial systems are poised to meet some of the region's development objectives. As always, it is hoped that the report deepens the understanding of the region's development progress, prospects, and challenges.

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Abbreviations and Acronyms

ATM	Automated teller machine
bl	Barrel
bn	Billion
bpd	Barrels per day
CAR	Capital adequacy ratio
DECPG	Development Prospects Group (World Bank)
EU	European Union
FDI	Foreign direct investment
FSDI	Financial Sector Development Indicators (a World Bank database)
FTA	Free trade agreement
GCC	Cooperation Council for the Arab States of the Gulf (formerly named and still commonly called the “Gulf Cooperation Council”)
GDP	Gross domestic product
ICA	Investment Climate Assessment (a World Bank report)
IFS	International Financial Statistics (an International Monetary Fund database)
IMF	International Monetary Fund
IPO	Initial public offering
LIBOR	London interbank offered rate
LMIC	Low- and middle-income economies
LPG	Liquefied petroleum gas
MEDP	MENA Economic Developments and Prospects (a World Bank report)
MENA	Middle East and North Africa
MFA	Multifiber Agreement
MFN	Most favored nation
mn	Million
MUV	Manufacturers’ unit value
NPL	Nonperforming loan
NTB	Nontariff barrier
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries

QIZ	Qualifying industrial zone
RPLA	Resource-poor, labor-abundant
RRLA	Resource-rich, labor-abundant
RRLI	Resource-rich, labor-importing
TRAINS	Trade Analysis and Information System
UAE	The United Arab Emirates
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNWTO	World Tourism Organization
WITS	World Integrated Trade Solution (software)
WTI	West Texas Intermediate
WTO	World Trade Organization

All dollar amounts are U.S. dollars unless otherwise indicated.