



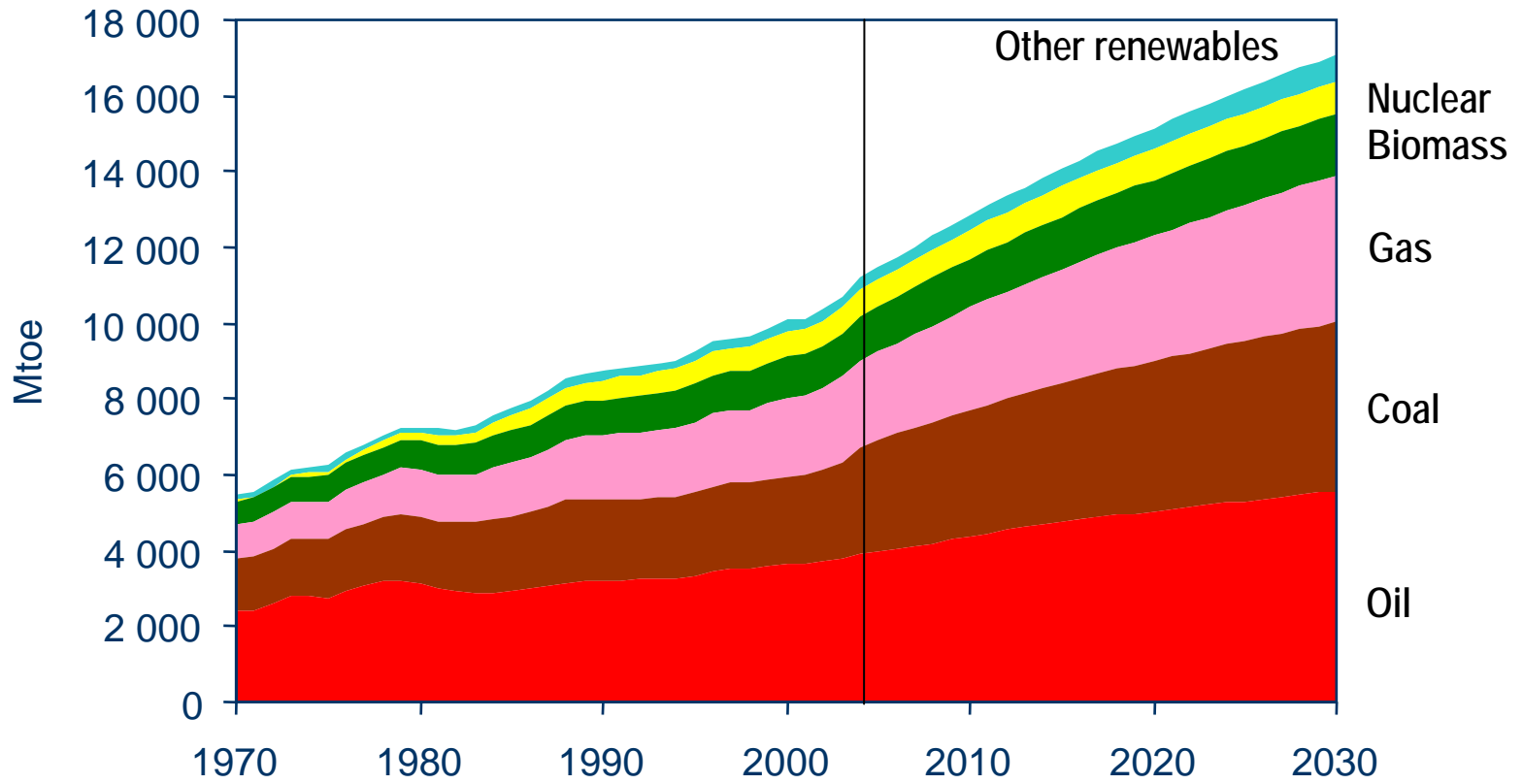
OFFICE OF THE CHIEF ECONOMIST

GCC Economic Growth and Implications for Debt Markets

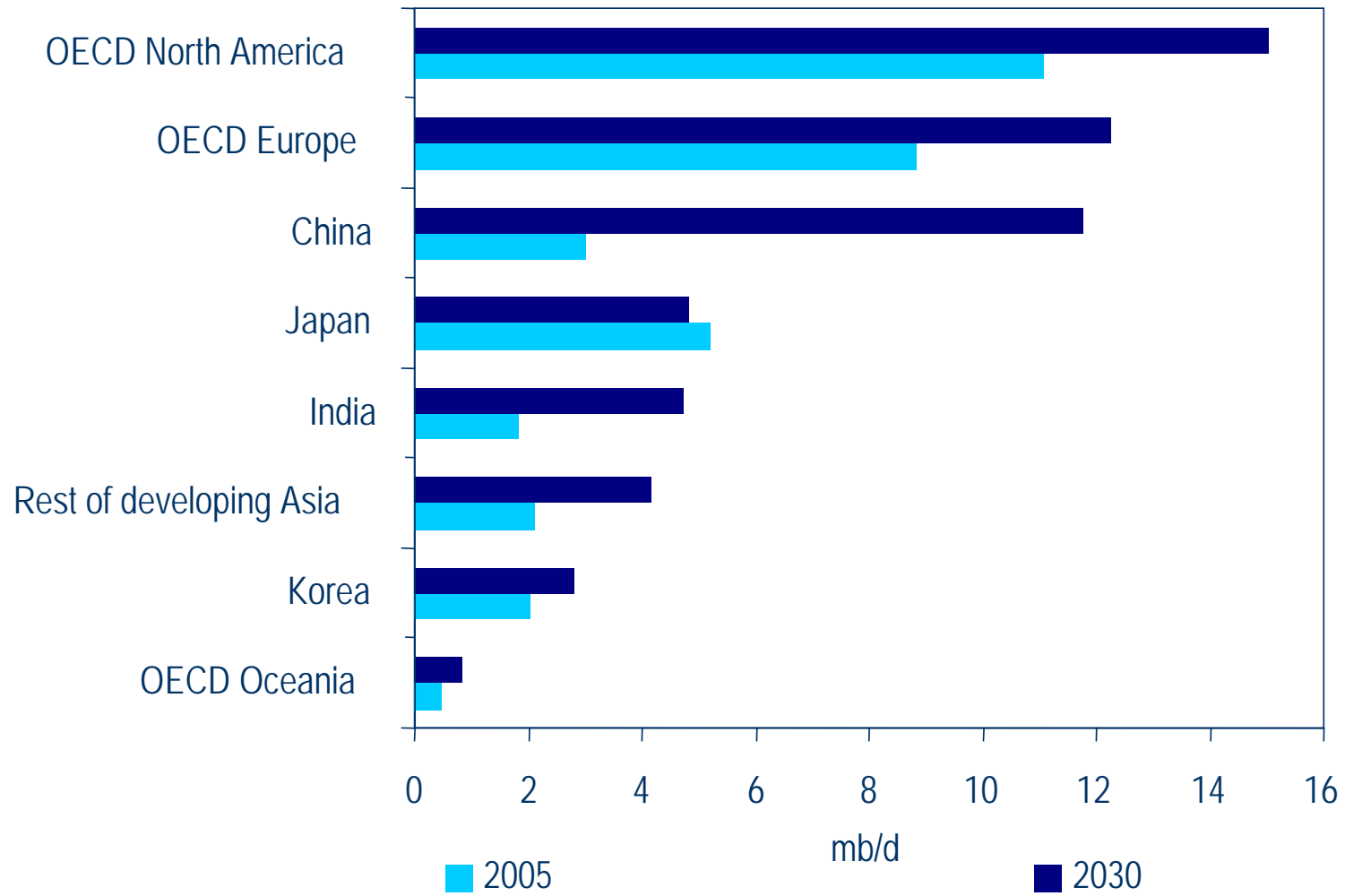
25 April 2007

Brad Bourland, CFA
Chief Economist

World Energy Demand Forecast

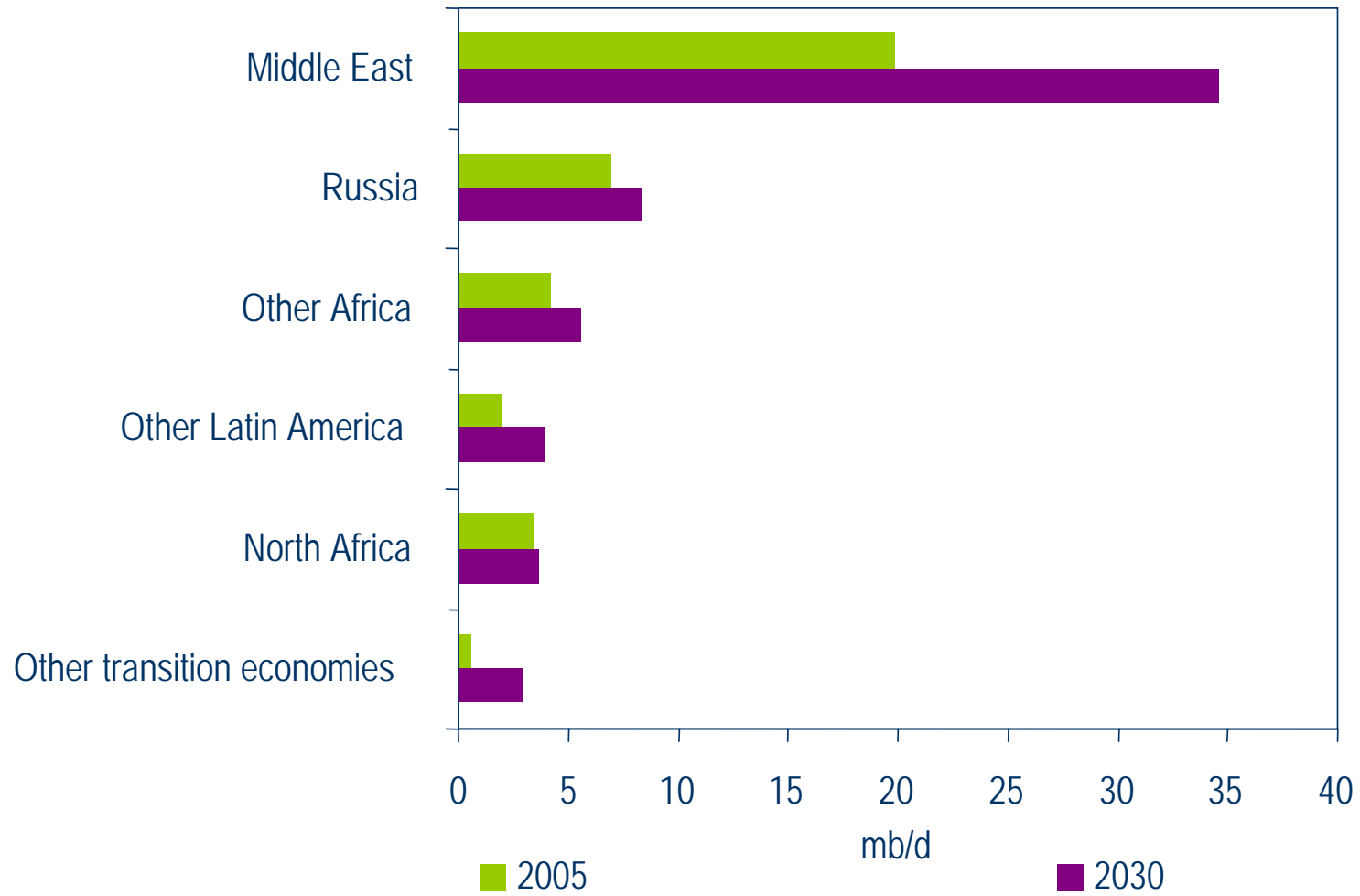


Net Oil Imports 2005, 2030



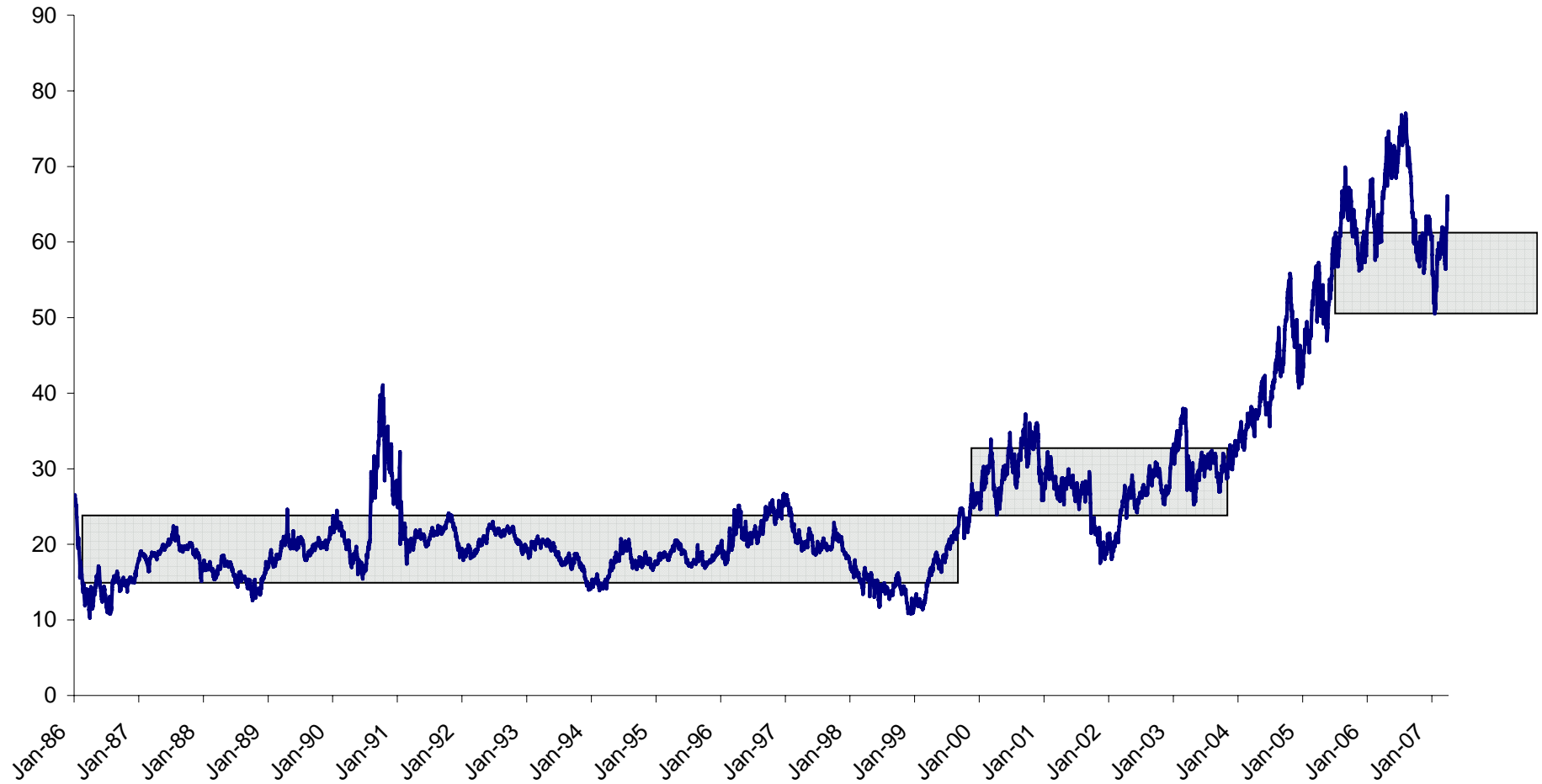
Source: IEA

Net Oil Exports 2005, 2030



Source: IEA

Oil Prices, 1986-2007



Under base case oil production scenarios to 2030 and for \$50/barrel, then oil revenues would be:

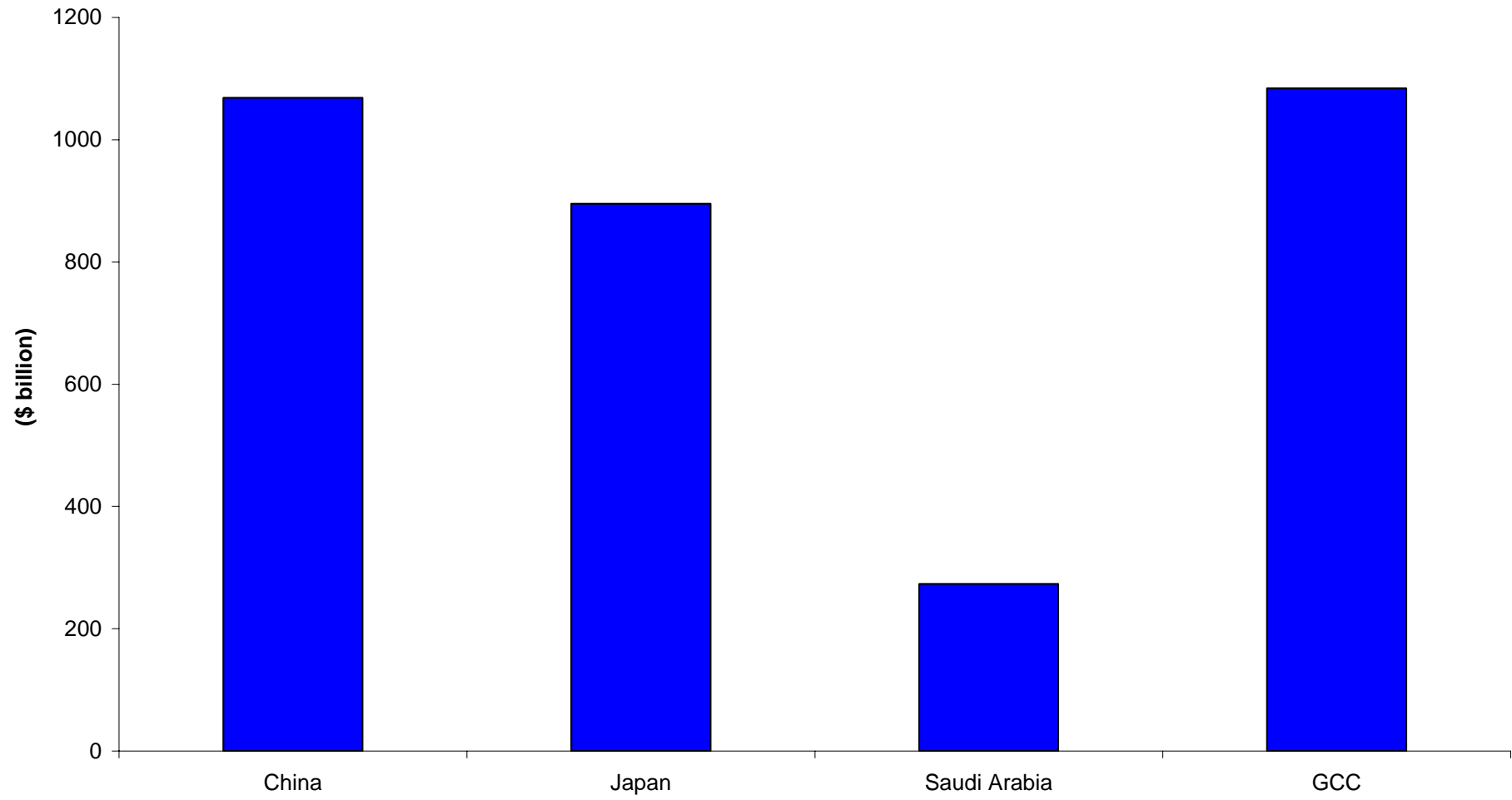
- \$13 trillion for Saudi Arabia
- \$24 trillion for GCC
- \$38.5 trillion for OPEC Middle East

Current account surpluses 2005-2007:

- GCC: \$585 billion
- China: \$521 billion
- Japan: \$437 billion

GCC official foreign assets growing by > \$150 billion/year.

Total Foreign Assets (2006)

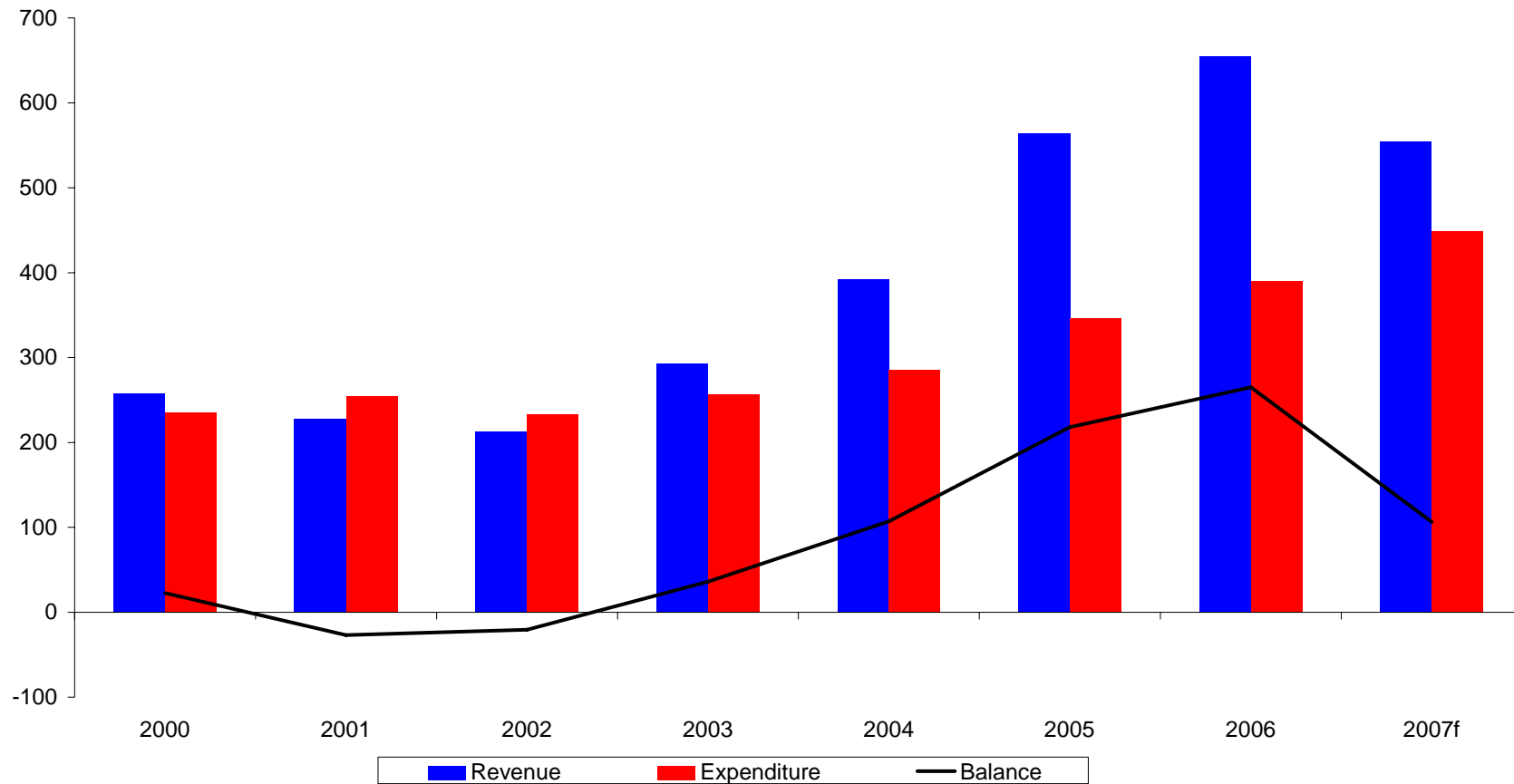


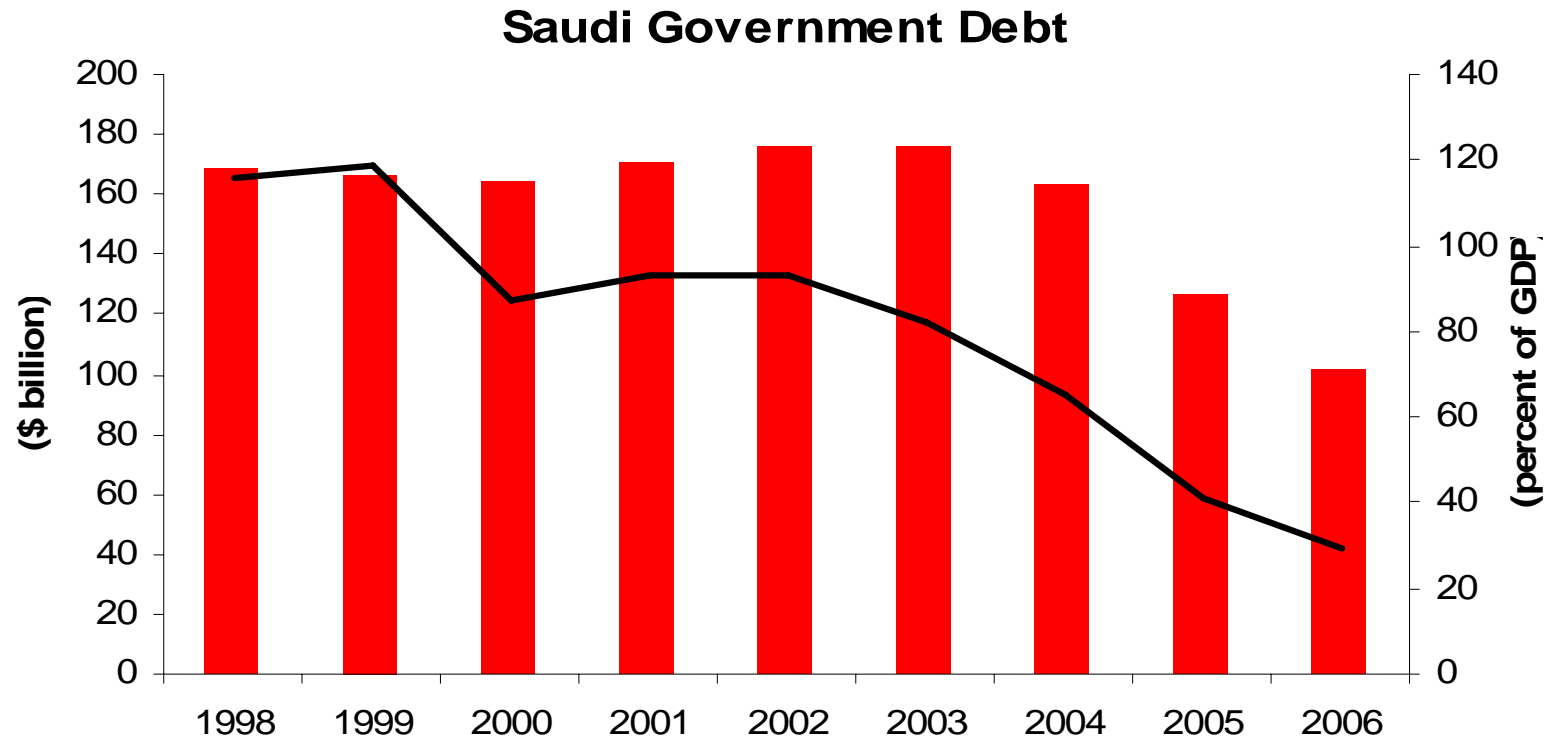
SAMA Foreign Assets and Banking Sector Assets (\$ billion)

	Yr-end 2003	Feb 2007
Foreign Exchange Reserves	21.39	25.51
Deposits in Banks Abroad	12.21	25.53
Investments in Foreign Securities	25.88	177.37
Total	59.48	228.41
Total Banking Sector Assets	145.39	234.09

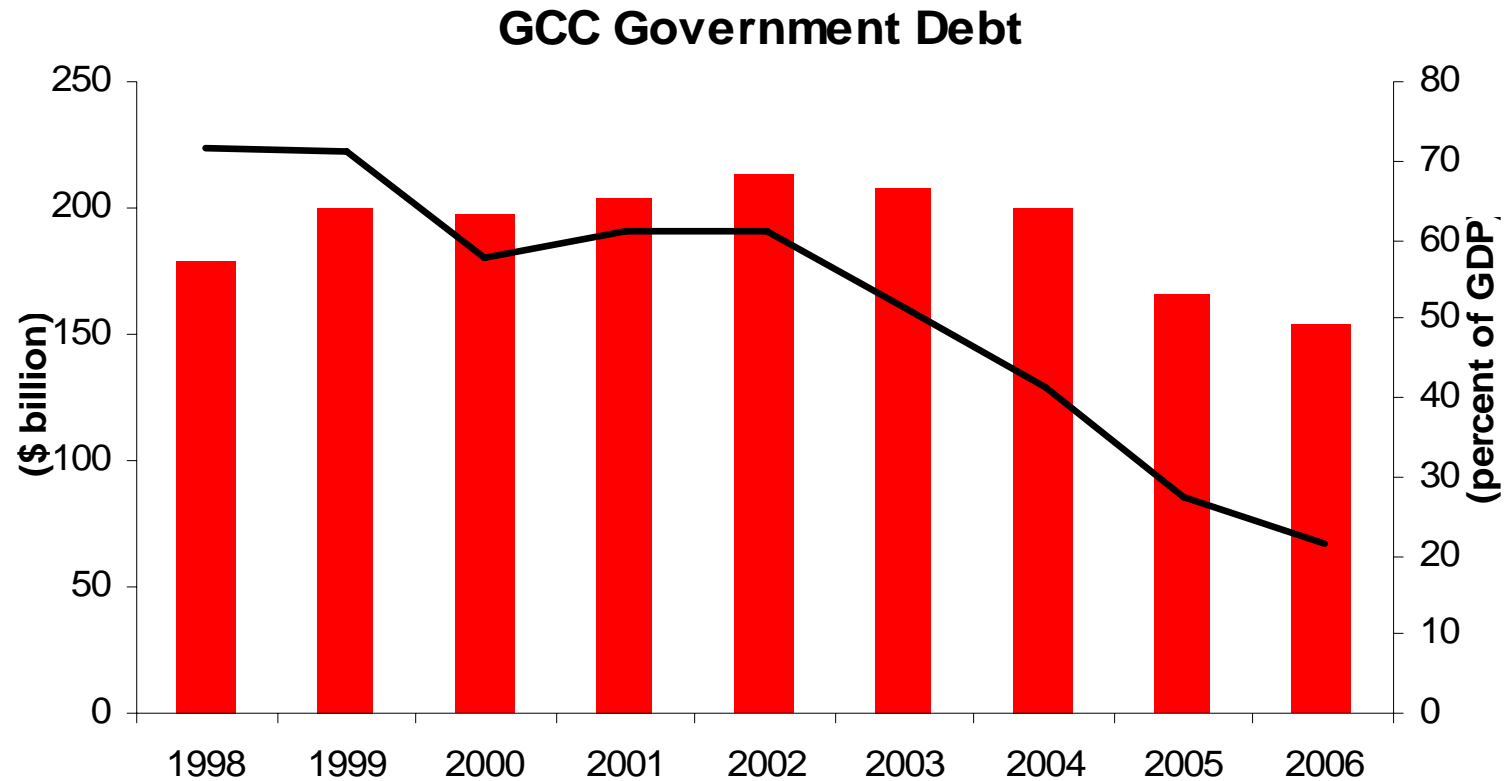
Source: SAMA

Budgetary Trends (SR bn)





- Oil windfall has allowed substantial cut in debt
- Government intentions for remaining debt are unclear



- Economic outlook suggests little need for new debt
- Sovereigns will not be driving force of GCC sukuk market, except in Bahrain

GDP Growth Forecasts

	2006	2007
World	5.1	4.9
US	3.4	2.9
Japan	2.7	2.1
EU	2.8	2.4
UK	2.7	2.7
China	10.0	10.0
India	8.3	7.3
Emerging Markets	7.3	7.2
Middle East	5.8	5.4

Source: IMF, World Economic Outlook, Sept. 2006

- Soft oil market reduces oil revenues, cutting growth and lowering budgetary and external surpluses
- Non-oil private sector accelerates growth
- Inflation
- Impact of share price downturn works through economy

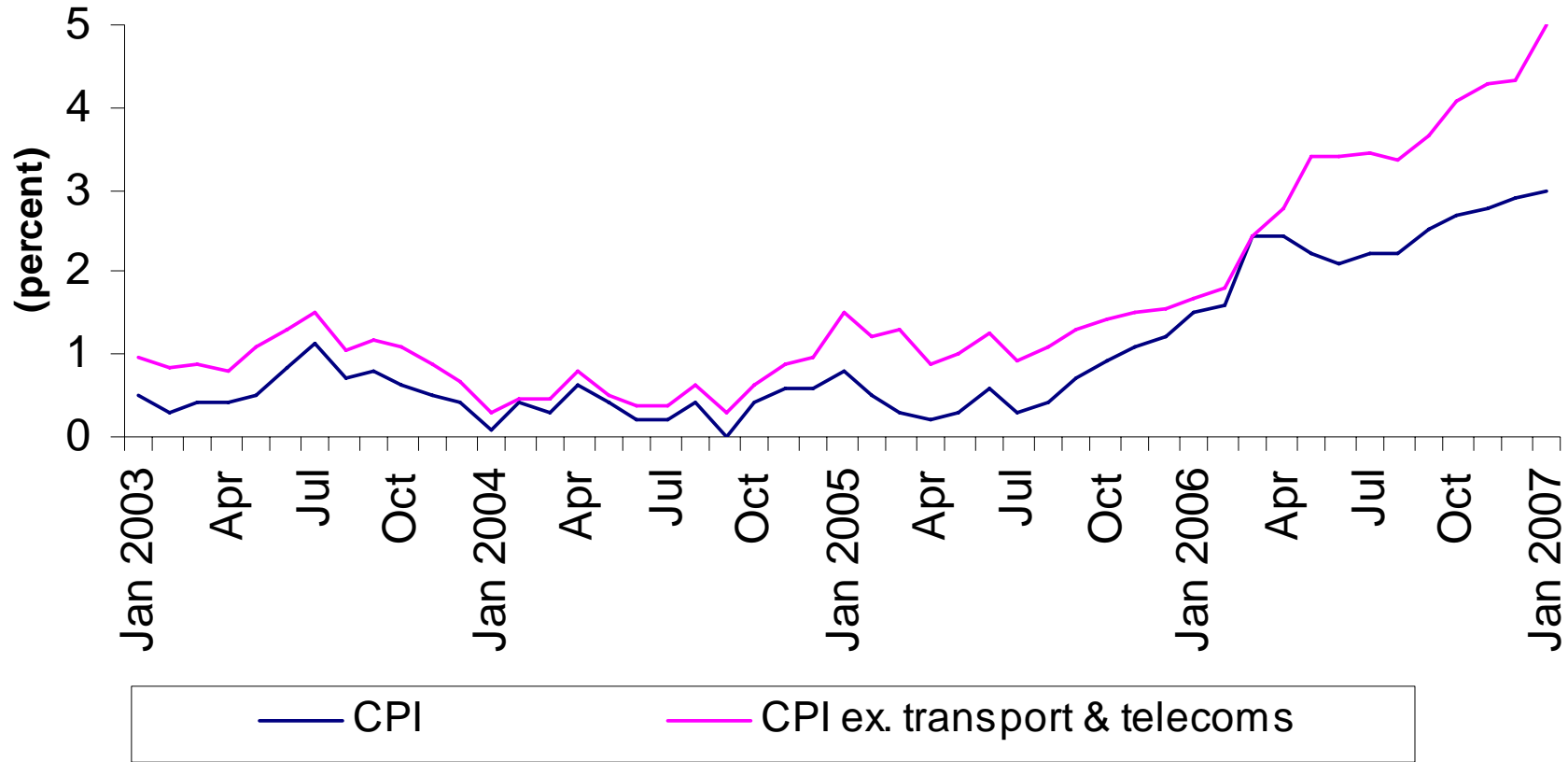
Outlook for 2007

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
Nominal GDP (%)	0.5	-4.0	1.2	-1.5	-3.5	1.5
Real GDP (%)	6.0	3.2	6.8	7.0	2.4	6.0
Current Account (% GDP)	10.1	35.8	4.6	9.8	17.3	10.9
Budget (% GDP)	6.1	28.5	7.6	6.2	8.5	11.1
Inflation (%)	2.4	2.3	2.8	7.5	2.7	7.5

2007 Growth Forecast by Select Sectors

	<u>Growth (%)</u>
Manufacturing	13.5
Construction	9.5
Wholesale & Retail Trade	9.5
Transport, Storage & Communication	11.8
Finance, Insurance, Real Estate, Business Services	10.0

Consumer Price Inflation



Current Sources of Inflation

Inflation Breakdown							
	Foodstuffs & beverages	Renovation, rent, fuel & water	Home furniture	Transport & telecoms	Other expenses & services	General index	
Weighting (percent)	26	18	11	16	13	100	
Jan 2005	3.8	1.0	-0.4	-2.9	1.8	0.8	
Feb	2.9	1.0	-0.5	-3.4	1.7	0.5	
Mar	2.5	1.0	0.3	-3.4	2.2	0.3	
Apr	2.1	-0.8	0.3	-3.2	2.6	0.2	
May	2.2	-0.3	0.4	-3.1	2.2	0.3	
Jun	2.8	-0.3	0.7	-3.0	2.2	0.6	
Jul	2.4	-0.4	0.7	-3.3	1.7	0.3	
Aug	2.5	0.0	0.7	-2.6	1.7	0.4	
Sep	2.8	0.0	1.0	-2.3	2.6	0.7	
Oct	3.6	-1.2	1.1	-1.6	3.3	0.9	
Nov	4.1	-1.4	0.6	-1.0	3.3	1.1	
Dec	4.2	-1.4	0.5	-1.0	3.3	1.2	
Jan 2006	3.9	-1.0	0.4	Fuel price cut	1.0	4.0	1.5
Feb	4.2	-1.1	0.5	price cut	0.5	4.1	1.6
Mar	5.3	-0.6	-0.2	cut	0.7	5.4	2.4
Apr	5.0	Steadily increasing food prices	1.1	-0.2	0.5	5.5	2.4
May	4.7	0.7	0.0	-5.1	10.3	2.2	
Jun	4.6	1.2	-0.2	-5.3	10.2	2.1	
Jul	4.9	1.3	0.1	-4.7	9.7	2.2	
Aug	5.0	1.1	-0.1	-4.9	9.6	2.2	
Sep	6.3	1.3	-0.3	-4.7	8.4	2.5	
Oct	6.5	1.8	1.4	-5.3	8.6	2.7	
Nov	6.8	2.3	Note recent rise	1.1	-5.4	8.6	2.8
Dec	6.6	3.1	1.1	-5.2	8.6	2.9	
Jan 2007	9.4	3.5	0.8	-8.5	7.0	3.0	

Current sources of inflationary pressure – fresh food and jewelry prices – should dissipate

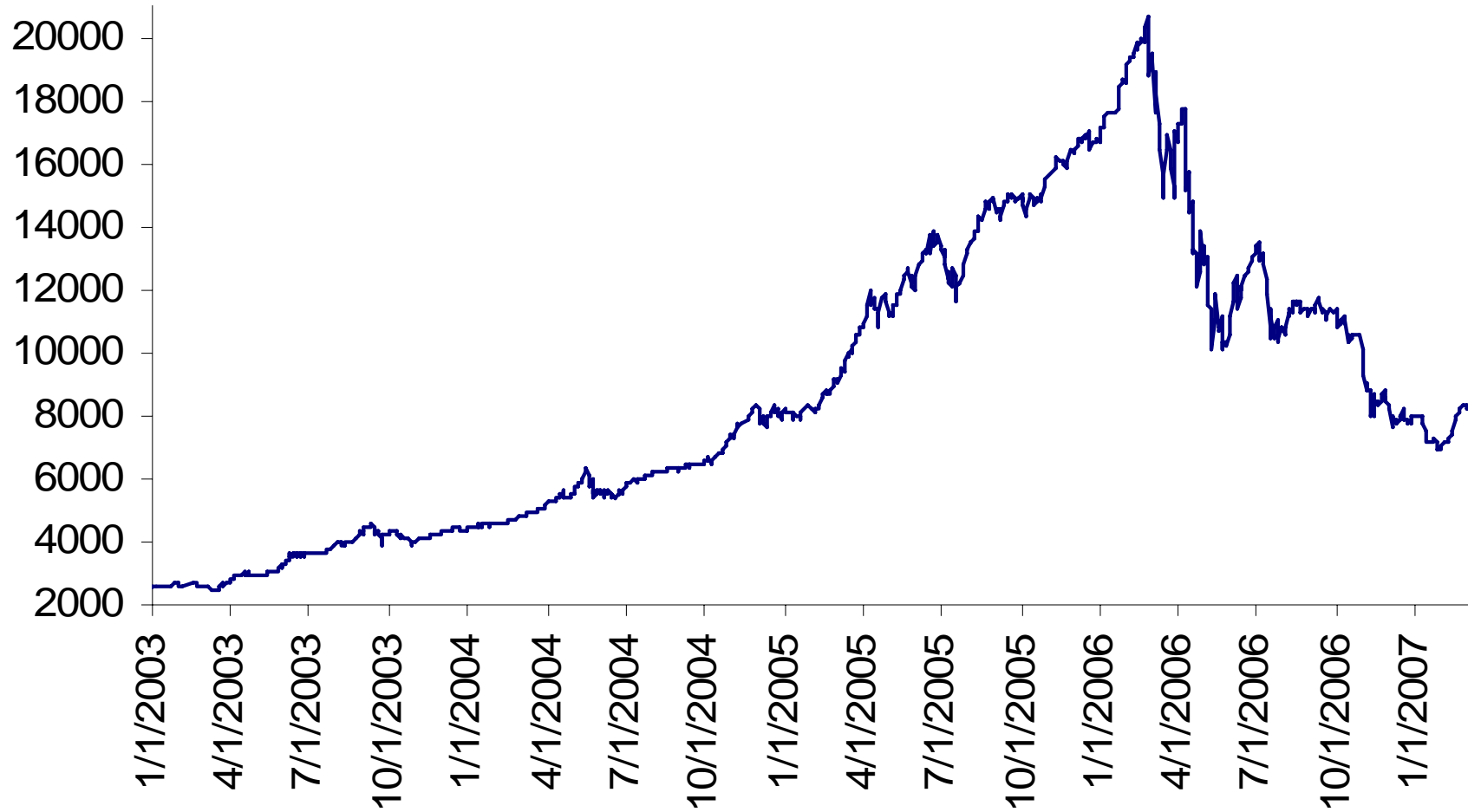
However, new sources will emerge:

- Rents
- Raw materials
- Professional services
- Imported goods

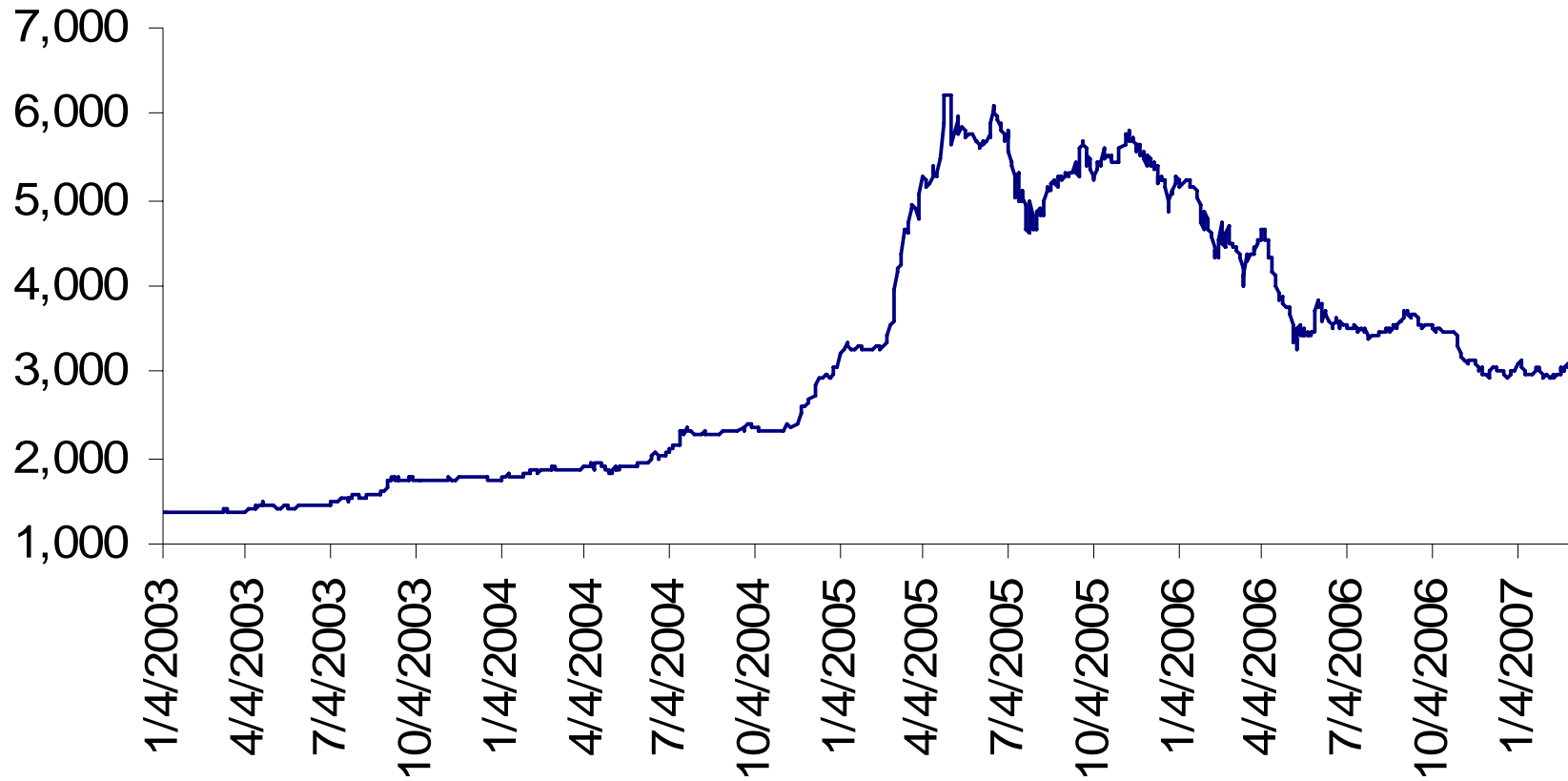
Summary of Inflation Policy Options

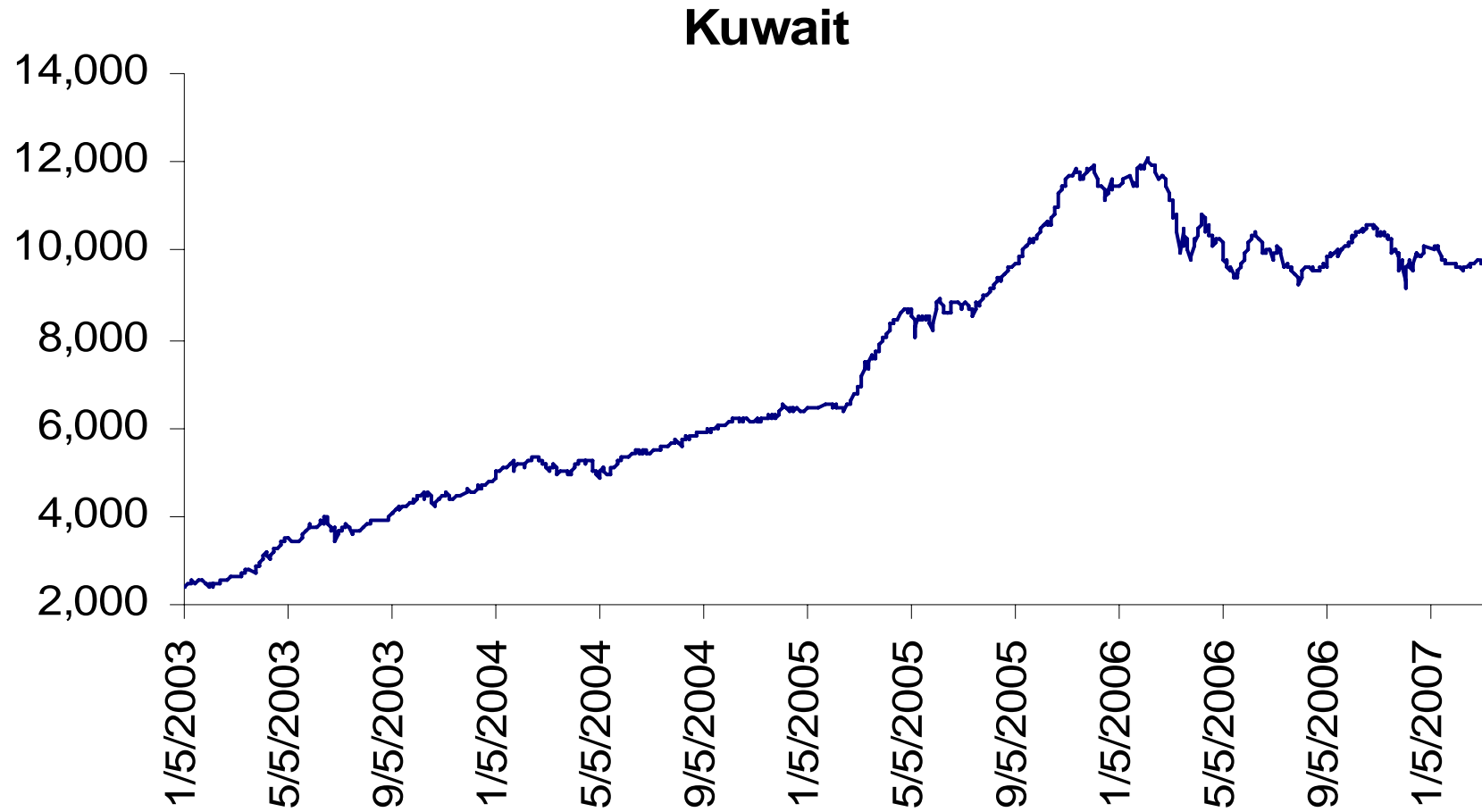
Policy	Effectiveness	Comment
Raising interest rates	Weak	Little indebtedness. Exchange rate peg limits ability to move rates.
Restricting commercial bank lending	Moderate	Takes time to have an effect. Bank lending not currently a major contributor to inflation.
Cutting government spending	Strong	Will slow economic growth and upgrade of essential human and physical infrastructure.
Increasing tax rates	Weak	Tax base too small.
Easing supply constraints	Weak	Important long-term solution, but little immediate impact.
Exchange rate revaluation	Moderate	Wide-ranging economic impact makes it unsuitable for use solely as an inflation-fighting tool.
Price controls	Strong	Effective in short-term, but generates longer-term distortions in the economy.

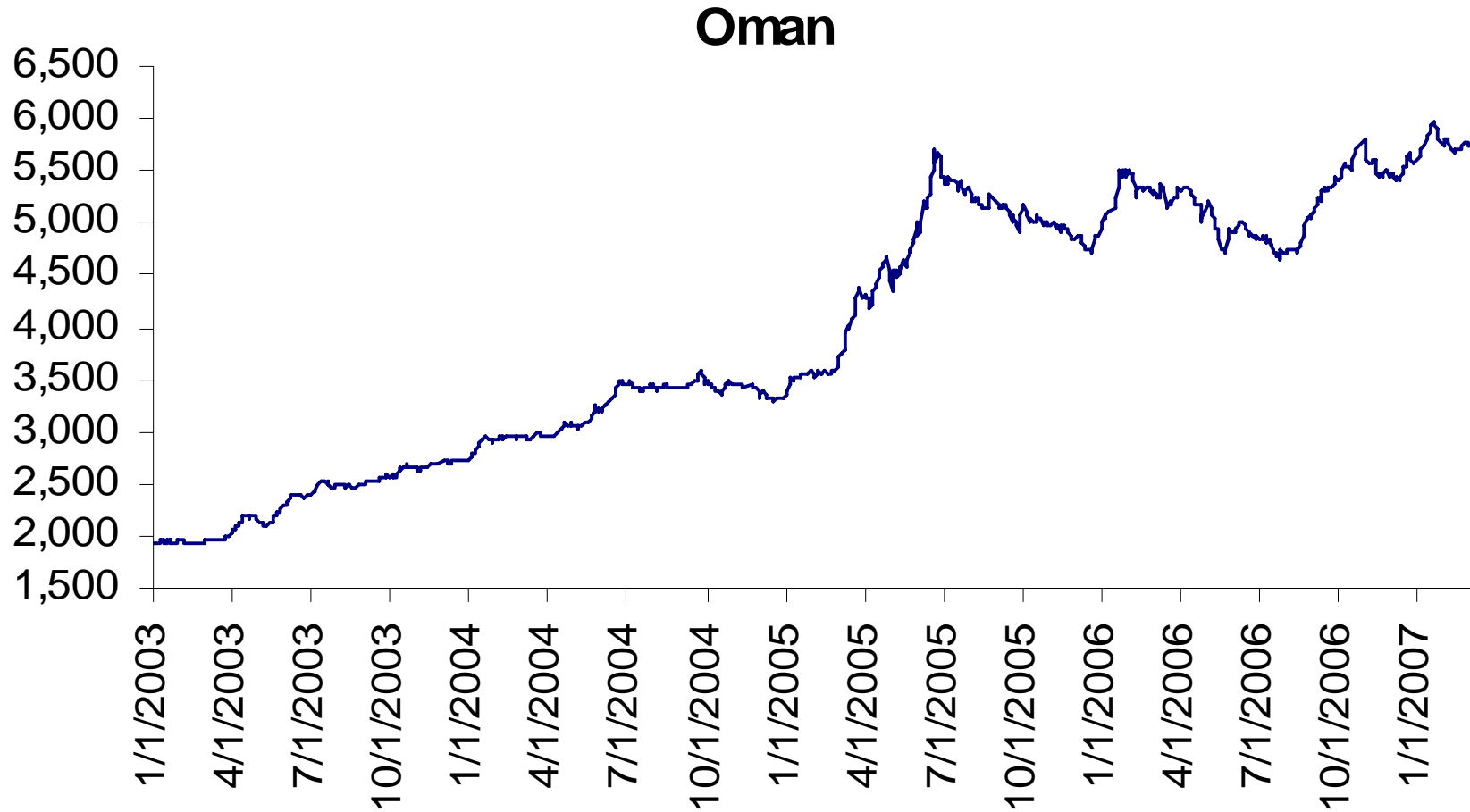
Saudi Arabia



Abu Dhabi







Stellar IPO performance,
even after market decline

Saudi IPO Track Record

Company	Year	Offering Price (SR)	Price (SR) 1st day	% Gain/Loss	Price (SR) 31-Mar	% Gain/Loss 31-Mar
Saudi Telecommunications Co.	2003	25.5	35.6	39%	63.5	149%
Sahara Petrochemicals	2004	10	30	200%	33.0	230%
Ettihad Ettisalat	2004	10	60	500%	49.0	390%
NCCI	2005	41	74.4	81%	113	176%
Bank Al-Bilad	2005	10	153	1430%	35.8	258%
SADAFCO	2005	52	101.2	95%	33	-36%
Al-Marai Dairy	2005	76.8	117.3	53%	75	-3%
Yansab Petrochemicals	2006	10	122.2	1122%	28.0	180%
Al Drees Petr. & Trans. Co.	2006	37	69.4	88%	75.3	103%
Saudi Research & Marketing Group	2006	46	95	107%	60.0	30%
Paper Manufacturing Co.	2006	62	142.8	130%	63.5	2%
Emaar The Economic City	2006	10	30.5	205%	17	70%
Red Sea Housing	2006	58	86	48%	67	15%
Saudi Int'l. Petrochemical Co.	2006	55	45.3	-18%	56.5	3%
Al Babtain Power & Telecoms.	2006	40	59	48%	85.5	114%
Fawaz Abdulaziz Alhokair & Co.	2006	110	99.5	-10%	100.0	-9%
Advanced Polypropylene	2007	10	17.8	78%	21.8	118%
Al Abdullatif Industrial Investment Co.	2007	42	56	33%	58.8	40%

Adjusted for stock splits and bonus shares

How has the economy withstood the collapse in share prices?

- Most IPOs still well above offer price
- Government and strategic investors absorbed much of the losses
- Corporate sector access to finance, from the market and from banks, has been largely unaffected
- Cautious regulation and bank lending policies limit damage to the banking sector
- Fundamental economic strength unchanged

- Hard to envision magnitude of capital flows to the Middle East with oil > \$50 for many years
- First phase of the oil boom: megaprojects and growing official foreign assets
- Second phase starts to emerge in 2007: softer oil market but accelerating and broadening private sector growth
- 2007 economy: oil market softness, emergence of inflation, stronger private sector growth
- For debt markets: Few sovereign issues, growing corporate issues, and plenty of liquidity and appetite by investors (mainly institutional)

Key Economic Data and Forecasts
(billion US \$ unless noted otherwise)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007F
Nominal GDP (SR billion)	590.75	617.90	546.64	603.59	706.66	686.30	707.07	804.65	938.77	1160.74	1304.67	1259.02
\$ Billion equivalent	157.53	164.77	145.77	160.96	188.44	183.01	188.55	214.57	250.34	309.53	347.91	335.74
% Change	10.7	4.6	-11.5	10.4	17.1	-2.9	3.0	13.8	16.7	23.6	12.4	-3.5
Real GDP (% change)	1.40	2.60	2.80	-0.80	4.90	1.20	0.74	6.40	5.30	6.53	4.20	2.43
Oil	2.10	-1.40	3.20	-7.50	6.90	-1.20	-5.00	14.30	5.90	5.90	-3.00	-6.40
Non-oil Private Sector	1.10	4.60	2.60	4.20	4.30	3.50	4.20	3.40	5.70	6.63	6.30	7.10
Government	1.30	6.10	1.90	0.90	3.20	1.70	1.00	1.50	4.00	7.20	9.00	4.50
Male Unemployment (% of Saudi male labor force)	n/a	n/a	n/a	6.66	6.54	6.82	7.57	8.20	8.50	8.80	8.00	8.00
Population (million persons)	18.67	19.13	19.60	20.08	20.57	21.08	21.60	22.13	22.67	23.23	23.86	24.79
Saudi	13.58	13.92	14.26	14.62	14.98	15.35	15.74	16.13	16.53	16.94	17.36	17.79
Non-Saudi	5.09	5.21	5.34	5.46	5.59	5.73	5.86	6.00	6.14	6.29	6.50	7.00
GDP/Capita (US \$)	8,438	8,613	7,437	8,016	9,161	8,682	8,729	9,696	11,043	13,325	14,581	13,543
Oil Price (\$/barrel)												
West Texas Intermediate	22.14	20.67	14.00	19.62	30.61	25.76	26.57	31.05	41.51	57.22	66.69	58.50
Saudi Average	19.08	17.75	11.30	16.88	26.81	21.84	23.72	26.92	34.74	49.45	60.53	53.50
Oil Export Revenues	54.10	53.18	32.47	44.74	70.65	59.60	63.62	82.02	110.42	161.95	191.50	167.70
Current Account Balance	0.68	0.31	-13.15	0.41	14.32	9.35	11.87	28.05	51.93	90.66	95.50	58.20
as percent of GDP	0.43	0.19	-9.02	0.26	7.60	5.11	6.30	13.07	20.74	29.29	27.45	17.33
Government Budget Balance (billion SR)	-19.03	-15.77	-48.45	-36.39	22.74	-26.98	-20.50	36.00	107.09	217.86	265.00	106.50
Revenues	179.09	205.50	141.61	147.45	258.07	228.16	213.00	293.00	392.29	564.34	655.00	555.00
Expenditures	198.12	221.27	190.06	183.84	235.32	255.14	233.50	257.00	285.20	346.47	390.00	448.50
Budget balance as percent of GDP	-3.2	-2.6	-8.9	-6.0	3.2	-3.9	-2.9	4.5	11.4	18.8	20.3	8.5
Government Domestic Debt (billion SR)	496	538	634	625	616	640	660	660	614	475	380	316
as percent of GDP	84	87	116	119	87	93	93	82	65	41	29	25
Official Foreign Assets	78.04	85.98	78.34	69.35	80.29	82.25	77.49	97.51	126.42	192.86	273.22	320.00
Central Bank	52.08	58.21	46.63	39.01	47.54	48.35	41.89	59.51	86.42	150.28	224.69	270.00
Government Pension Funds	25.96	27.77	31.71	30.34	32.75	33.90	35.60	38.00	40.00	42.58	48.53	50.00
Cost of Living (% change)	1.30	0.00	-0.20	-1.20	-1.00	-1.11	0.20	0.61	0.30	0.71	2.30	2.70