

Distr.
LIMITED
E/ESCWA/EDGD/2009/WP.1
14 March 2009
ORIGINAL: ENGLISH

ECONOMIC AND SOCIAL COMMISSION FOR WESTERN ASIA (ESCWA)

**THE IMPACT OF THE GLOBAL FINANCIAL CRISIS
ON THE WORLD OIL MARKET AND ITS
IMPLICATIONS FOR THE GCC COUNTRIES***

* This paper was prepared within the framework of the ESCWA Initiative on Responding to the International Financial Crisis.

CONTENTS

<i>Chapter</i>	<i>Page</i>
I. INTRODUCTION	1
II. THE EXPECTED IMPACT OF THE CRISIS ON THE OIL MARKET CONDITIONS	1
A. Oil demand	1
B. Oil supply	2
C. Oil prices	3
III. SCENARIOS FOR THE FUTURE OF OIL PRICES AND THE CORRESPONDING OUTLOOKS FOR THE GCC ECONOMIES	3
A. Scenario 1: Two turbulent years followed by moderate growth starting in 2011	3
B. Scenario 2: Six turbulent months followed by moderate growth starting in late 2009	4
C. Scenario 3: Three turbulent months followed by moderate growth starting in the second half of 2009.....	4
D. Fiscal balance	6
E. Economic growth.....	6
F. Inflation	7
G. Current account.....	8
H. Sensitivity check for our analysis	8
IV. CONCLUSION	9
<i>References</i>	10

LIST OF TABLES

1. World oil demand, 2008-2010.....	2
2. World oil supply, 2008-2010.....	2
3. Crude oil prices, 2008-2010	3
4. Global economic outlook, 2005-2010	4
5. Budget balance, 2005-2010	5
6. Economic growth	7
7. Consumer price inflation, 2005-2010	7
8. Current account, 2005-2010	8

LIST OF FIGURES

I. GCC oil and gas revenues as percentage of total revenues, 2004 and 2007	5
II. GCC oil and gas revenues as percentage of total exports, 2004 and 2007	5

I. INTRODUCTION

This paper will examine the impact of the global financial crisis on oil prices and exports on the oil-exporting countries in the Gulf Cooperation Council (GCC) countries in 2009 and 2010. The paper is divided into four sections. In section two, we present forecasts for oil prices in 2009 and 2010; in section 3, one of the forecasts is used as a base scenario and two additional scenarios are developed for 2009 and 2010. Given the significant slowdown in the global economy and uncertain future prospects, the base scenario is used to forecast the main economic impacts on GCC countries. The other two scenarios are used to provide a measure of the sensitivity of the GCC economies to fluctuations in oil prices. The final section will present the conclusions of the study.

II. THE EXPECTED IMPACT OF THE CRISIS ON THE OIL MARKET CONDITIONS

Crude oil prices reached a record high of US\$ 147 per barrel (US\$/b) in July 2008 on the back of a six-year commodity boom cycle driven mostly by demand from developing countries.¹ However, as of August 2008, oil prices plunged rapidly as demand from the Organisation for Economic Co-operation and Development (OECD) countries came to a sudden halt and recession loomed as the financial crisis severely impacted the global economy (IDS, 2008, p. 5). In an attempt to curb falling prices, the Organization of Petroleum Exporting Countries (OPEC) introduced a series of cuts in output. At the time of writing, oil prices have begun to stabilize at levels ranging in the mid US\$ 40 per barrel.

In what follows, we present the expected impact of the financial crisis on oil markets and the anticipated impact of the crisis on oil demand, supply and prices. The analysis draws heavily on data prepared by the Economist Intelligence Unit (EIU) in its latest report on the Middle East and North Africa region, and the United States Department of Energy. Indeed, current events suggest that EIU estimates appear to be the most plausible. It is still too early to predict the full impact of the crisis on oil prices, but the margin of error of these forecasts should not be negligible.

A. OIL DEMAND

According to the EIU, world oil demand is falling. It is estimated that demand fell by 0.2 per cent in 2008 and expected to fall by 0.4 per cent in 2009. Plummeting world demand is largely driven by falling consumption in developed countries. Indeed, preliminary estimates point to a decline of 2.9 per cent in oil demand in OECD countries in 2008. A further drop of 1.8 per cent is also forecast in 2009. Reduction in demand in OECD countries is largely due to falling demand in North America, estimated at about 2 per cent in 2009, and in Europe, estimated at 1.7 per cent.

Non-OECD demand for oil is forecast to grow by 1.4 per cent in 2009 and by 2.3 per cent in 2010. Underpinning these estimates is the expected increase in demand in developing countries. However, even if that demand is expected to increase, it will not be sheltered from the consequences of the global economic turmoil, as it is forecast to grow at a slower pace over the short-to-medium term. Broadly speaking, growing oil demand in developing countries has recently been driven by two major components, namely increasing demand in both China and India and Arab oil-exporting countries. Hence, the extent to which oil demand in developing countries will be impacted largely depends on the underlying elements in each of the above-mentioned components. The expected slowdown in the demand for oil in emerging countries is greatly dependent on the demand outlook in China and India which is, in turn, related to their growth prospects.² According to the EIU, Chinese oil consumption will grow by just 2.5 per cent in 2009 (down from a 4.8 per cent growth the previous year), and by 3.5 per cent in 2010.

¹ Other factors were exerting upward pressures on oil prices including: fears over long-term supply, speculative activity, and geopolitical tensions dominating short-to-medium-term concerns.

² The EIU estimations of oil demand are based on an expected 2009 Chinese real gross domestic product growth rate of 7 per cent.

As for the Arab oil-exporting countries, the expected change in oil demand will largely depend on the impact of the unfolding crisis. These countries are likely to suffer from a marked slowdown in economic growth as a result of steep falls in the price of oil and gloomy economic prospects worldwide. This will translate into lower demand for oil: Arab oil consumption will grow by 3 per cent in 2009 and 2010, down from 5.4 per cent in 2008.

TABLE 1. WORLD OIL DEMAND, 2008-2010
(Million of barrels per day)

Oil consumption	2008	2009	2010
<i>EIU estimates</i>			
China	7.90	8.10	8.38
Other Asian countries	9.49	9.52	9.69
Total OECD	47.77	46.90	46.90
Total non-OECD	38.14	38.68	39.57
World total	85.91	85.58	86.47
<i>US Department of Energy estimates</i>			
China	7.98	8.17	8.41
Other Asian countries	9.24	9.16	9.24
Total OECD	47.47	45.84	45.76
Total non-OECD	38.18	38.43	39.38
World total	85.65	84.27	85.15

Source: The Arab Petroleum Research Center, 2009; EIU, 2008.

B. OIL SUPPLY

OPEC countries introduced large-scale cuts in output as the sharp fall in oil prices began to bite into the revenues of major oil-exporting countries. These cuts were made in two stages: (a) first, the production target was cut by 1.5 million barrels per day (b/d), effective from November 2008; and (b) a further cut of 2.7 million b/d became effective on January 2009, amounting for a cumulated cut of 4.2 million b/d.³

Taking into consideration the production cuts made in late 2008, the EIU estimates that global crude production has averaged around 86 million b/d in 2008, equivalent to an increase of only 1.2 per cent, when compared to 2007. Also, as shown in table 2, it expects a fall in global output by 1.15 per cent in 2009. The anticipated fall is largely driven by the steep decrease in OPEC production (estimated at 6.2 per cent), whereas non-OPEC production is expected to grow by 2.7 per cent.

However, EIU prospects for 2010 are less gloomy as it forecasts an increase of 2.6 per cent in world oil production. Such an increase is likely to result from an expected recovery in worldwide demand by the end of 2009.

TABLE 2. WORLD OIL SUPPLY, 2008-2010
(Million of barrels per day)

Oil production	2008	2009	2010
<i>EIU estimates</i>			
OPEC	37.18	34.87	36.12
Non-OPEC	48.98	50.29	51.23
World total	86.16	85.17	87.36
<i>US Department of Energy estimates</i>			
OPEC	35.71	33.78	35.44
Non-OPEC	49.75	49.76	49.95
World total	85.46	83.53	85.39

Source: The Arab Petroleum Research Center, 2009; EIU, 2008.

³ Saudi Arabia had already reduced its production level in response to falling prices since July 2008 (EIU, 2008).

C. OIL PRICES

It is widely held that the current crisis has negatively affected oil prices through two main channels: (a) as the financial crisis unfolded, many operators liquidated their positions in the commodity markets, in part to cover losses or margins; and (b) oil demand dwindled as the global economy entered into stagnation. As a result, oil prices are expected to decrease by nearly 64 per cent in 2009, with an expected average annual price of US\$ 35 per barrel (see table 3). However, the EIU expects prices to recover in 2010, registering an increase of almost 43 per cent in 2009. The recovery in oil prices would be due to: (a) the impact of the current production cuts; (b) the impact of the slow growth in the non-OPEC production; and (c) a small expected recovery in global demand.

TABLE 3. CRUDE OIL PRICES, 2008-2010
(United States dollars per barrel)

Prices	2008	2009	2010
<i>EIU estimates</i>			
West Texas Intermediate	98.53	35.70	51.00
<i>US Department of Energy estimates</i>			
West Texas Intermediate	99.57	51.70	57.75

Source: EIU, 2008; Energy Information Administration, 2009.

III. SCENARIOS FOR THE FUTURE OF OIL PRICES AND THE CORRESPONDING OUTLOOKS FOR THE GCC ECONOMIES

GCC countries have benefited greatly from high oil prices, which increased from a low of US\$ 29 per barrel in early 2003 to over US\$ 140 per barrel in July 2008. However, crude prices plummeted from a peak of US\$ 147 per barrel to less than US\$ 40 per barrel at the end of last year.

This shows that attempting to forecast the level of oil prices is becoming more difficult as news filters out on the financial crisis and its impacts on the future of the global economy. We will therefore limit our forecasts to two years (2009-2010) and offer the three following scenarios on the expected future price of oil.

A. SCENARIO 1: TWO TURBULENT YEARS FOLLOWED BY MODERATE GROWTH STARTING IN 2011

The global slowdown caused by the financial crisis and the subsequent decline in aggregate demand and employment will cause a severe global recession in 2009. The loss of confidence in the stock markets, which continued to decline as of early March 2009, more bank failures, further tightening of financial capital, and declining house prices, point to delayed results from the massive interventions undertaken by Governments in the United States, United Kingdom, the European Union and in other countries. This scenario points to an expected decline in the world economy at market exchange rates, with world gross domestic product (GDP) estimated to decline by 0.4 per cent in 2009 (EIU, 2008). This is the worst decline since the Second World War, and only a sluggish recovery of 1.5 per cent is forecast for 2010, as can be seen in table 4.

The assumption underpinning this scenario is that the OPEC cut of 4.2 million barrels per day in 2008 will fail to prevent the slide in oil prices as “still softening demand and rising inventories will continue to weigh on the market in the short run” (IMF, 2004). One should stress, however, that the fall in oil prices under this scenario points to a much stronger upward trajectory for oil prices starting in 2011, as oil demand increases at the bottom of the global recession and is paired with shorter supply.

The forecast for the global economy and our earlier discussion on the oil market will result in an average price of US\$ 35 per barrel in 2009 and US\$ 50 per barrel for 2010.

TABLE 4. GLOBAL ECONOMIC OUTLOOK, 2005-2010

	2005	2006	2007	2008	2009	2010
Real GDP growth (in per cent)						
United States	2.9	2.8	2.0	1.1	-2.0	0.7
Japan	1.9	2.4	2.1	0.3	-0.5	0.7
Euro area	2.0	2.9	2.6	1.1	-1.2	0.5
World (market exchange rates)	3.5	4.0	3.8	2.3	-0.4	1.5
World (PPP exchange rate)	4.4	5.0	4.9	3.4	0.7	2.5
World trade growth (in per cent)						
Goods	7.5	9.1	7.4	4.9	-1.5	2.5
Consumer price inflation (in per cent)						
United States	3.4	3.2	2.9	4.0	0.3	1.0
Japan	-0.3	0.2	0.1	1.6	0.0	0.3
Euro area	2.0	2.0	2.1	3.4	1.7	1.5
World oil prices (Brent; US\$/b)	54.4	65.4	72.7	97.0	35.0	50.0

Source: EIU, 2008.

B. SCENARIO 2: SIX TURBULENT MONTHS FOLLOWED BY MODERATE GROWTH STARTING IN LATE 2009

This scenario assumes that the economic programmes of the new United States administration will lead to an economic recovery in the United States; this recovery will also benefit from low oil prices and a strengthening United States dollar. Such effects are likely to shorten the severity and the duration of the downturn in the United States economy.

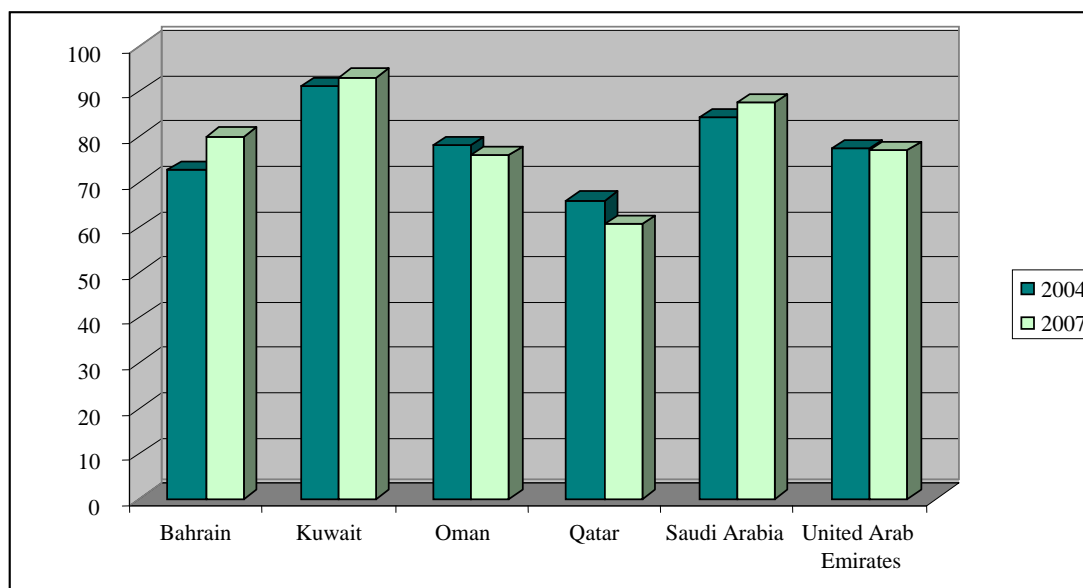
This scenario also foresees that economies in the Euro Zone and elsewhere would recover and that world GDP (at market exchange rates) would only fall by half the amount foreseen in scenario 1. This forecast would result in a higher level of demand for oil, principally from China and India, as news of a recovery in the United States is confirmed. Under this scenario, the average oil prices would be US\$ 45 per barrel in 2009 and US\$ 60 per barrel in 2010.

C. SCENARIO 3: THREE TURBULENT MONTHS FOLLOWED BY MODERATE GROWTH STARTING IN THE SECOND HALF OF 2009

This last scenario is similar to scenario 2, except that the decline in aggregate demand and employment associated with it is less severe. In addition, the positive impacts of scenario 2 are supposed to work faster. This suggests that fundamental changes in the financial system would restore confidence in the ability of the United States economy to recover faster. An average price of US\$ 50 per barrel for 2009 and US\$ 65 per barrel for 2010 is proposed under this scenario. Finally, the remarks by Ben Bernanke, the Chairman of the Board of Governors of the Federal Reserve System on 15 March 2009 that “we will see the recession coming to an end probably this year. We will see recovery beginning next year. And it will pick up steam over time,” seem to support the possibility of this scenario.

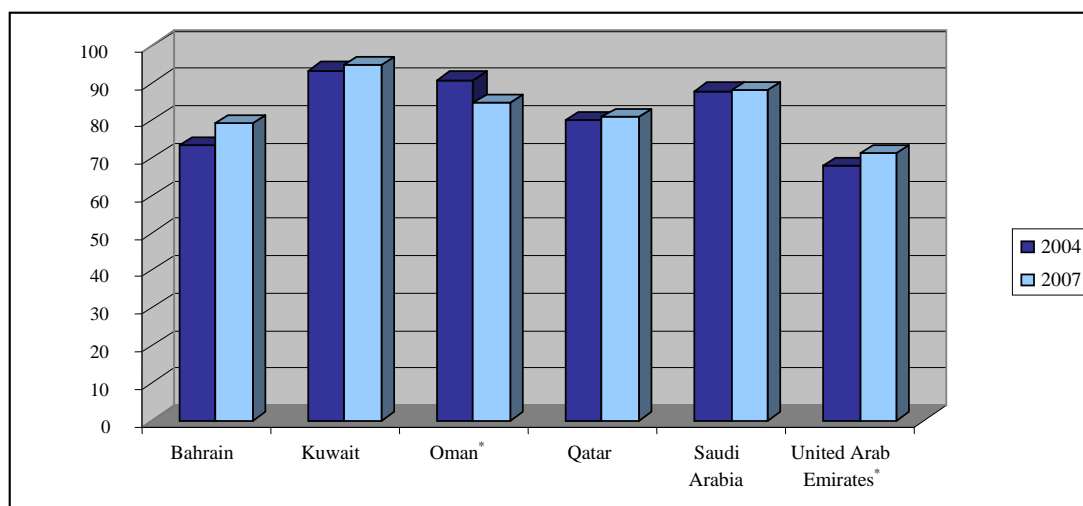
These scenarios on the future of oil market all foresee important impacts on the GCC economies. This is not to say that any of these scenarios will materialize, but it is worthwhile noting that a comparison of the main macroeconomic variables in such scenarios would assist policymakers in GCC countries to study the quantitative impacts of the financial crisis on their countries, particularly as they are very dependent on oil revenues as the major driving force of their economies. This is evident in figures 1 and 2 which present GCC oil and gas revenues in 2004 to 2007, and the share of oil and gas exports to total exports over the same period. In addition, even the growth of the non-oil sectors in these countries were seen to follow the trend in oil prices and exports. A statistically significant correlation between real non-oil GDP growth and the change in price of oil for pooled data from ten oil exporting countries was observed using data over the past decade and a half (Hussain et al, 2008).

Figure I. GCC oil and gas revenues as percentage of total revenues, 2004 and 2007
(Percentage)



Sources: Compiled by ESCWA from: Central Bank of Bahrain, Economic Indicators, December 2008; Central Bank of Kuwait, Quarterly Bulletin, July-September 2008; Central Bank of Oman, Annual Report 2007; Qatar Central Bank, Annual Report, 2007; Saudi Arabian Monetary Agency, Annual Report, 2008 and 2007 issues; Central Bank of the United Arab Emirates, Statistical Bulletin, July-September 2008 and Economic Bulletin, various issues.

Figure II. GCC oil and gas revenues as percentage of total exports, 2004 and 2007
(Percentage)



* Does not include re-exports.

Sources: Compiled by ESCWA from: Central Bank of Bahrain, Economic Indicators, December 2008; Central Bank of Kuwait, Quarterly Bulletin, July-September 2008; Central Bank of Oman, Annual Report 2007; Qatar Central Bank, Annual Report, 2007; Saudi Arabian Monetary Agency, Annual Report, 2008 and 2007 issues; Central Bank of the United Arab Emirates, Statistical Bulletin, July-September 2008 and Economic Bulletin, various issues.

In what follows, we outline the possible impacts of the financial crisis on the real economies of the GCC countries⁴ by focusing on the impacts of the first scenario – the most realistic in the light of recent developments in the global economy – on budget balances, growth prospects, the current account and inflation.

D. FISCAL BALANCE

As shown in table 5, GCC countries are expected to experience a steep decrease in their fiscal surpluses in 2009 and, with the exception of Saudi Arabia and the United Arab Emirates, register a slight recovery in 2010.

TABLE 5. BUDGET BALANCE, 2005-2010
(Percentage of GDP)

	2005	2006	2007	2008	2009	2010
Bahrain	7.5	4.3	3.4	6.4	-1.6	-1.0
Kuwait	39.4	29.1	42.4	31.5	4.0	5.6
Oman ^{a/}	2.0	3.7	3.0	6.1	3.4	5.0
Qatar ^{b/}	9.2	9.7	8.0	10.9	2.3	3.6
Saudi Arabia	18.4	21.0	12.3	11.6	-2.8	-3.1
United Arab Emirates	8.1	11.6	14.2	13.8	1.7	1.1

Source: EIU, 2008.

a/ Net official balance, excludes State General Reserve Fund operations and grants.

b/ Excludes earnings from liquefied natural gas.

Falling surpluses would result from two concurring dynamics: (a) a severe decrease in export receipts induced by the fall in oil prices; and (b) an anticipated high level of public expenditure, as Governments will be forced to boost domestic demand.

Bahrain and Saudi Arabia are expected to have fiscal deficits for the first time since 2002. The fiscal position of Bahrain is largely dependent on oil, and will therefore be severely hit by declining oil prices. Moreover, the Bahraini authorities have maintained high spending levels since 2005, increasing by an annual average of 18 per cent (EIU, 2008). Thus, it is assumed that it will be rather difficult for the Government to significantly cut its expenditures, particularly in times of crisis. Saudi Arabia will experience two pressures on two fronts: dwindling oil prices will bite into its receipts, and social factors will oblige Saudi authorities not to rein in their spending.

In 2010, the expected recovery in world oil demand will likely pull up the GCC production and, consequently, their oil receipts. This will translate into budget surpluses in nearly all the GCC countries, albeit at lower levels relatively to the pre-2008 period.

E. ECONOMIC GROWTH

The combination of falling oil prices and reduced oil production will negatively impact the growth prospects of GCC countries in the period under review. As shown in table 6, the GCC region is expected to grow at 4.8 per cent in 2009, down from a growth rate of 7.3 per cent the previous year. However, a growth of 6 per cent is expected in 2010.

The United Arab Emirates is arguably the country that will be the most affected. This is due to a severe contraction in domestic demand, notably in Dubai. Indeed, primary evidence suggests that the real estate sector has been hard hit, due to tightening credit and the gloomy economic outlook. Thus, capital

⁴ See Woertz E. [2008] for a discussion of the direct and indirect financial effects of the crisis on GCC countries.

investment is likely to suffer in the coming years, and it seems likely that consumption will fall sharply. About 80 per cent of the workforce in Dubai is composed of expatriates (GIH, 2009) and, as many firms are downsizing their projects and starting to lay-off some of their employees, a significant reduction in consumption is to be expected. The gross domestic product of the United Arab Emirates will also suffer from the projected decrease of oil receipts in Abu Dhabi. All in all, it is assumed that the United Arab Emirates will grow at a modest 3.8 per cent in 2009, down from a growth rate of almost 8 per cent in 2008. In 2010, growth is expected to recover due to increased public investment in Abu Dhabi.

TABLE 6. ECONOMIC GROWTH
(Percentage change, market exchange rate weights)

	2005	2006	2007	2008	2009	2010
World	3.5	4.0	3.8	2.3	-0.4	1.5
United States	2.9	2.8	2.0	1.1	-2.0	0.7
Japan	1.9	2.4	2.1	0.3	-0.5	0.7
Middle East and North Africa	5.6	5.3	5.6	6.3	4.4	5.2
Oil exporters	6.1	5.3	5.7	6.6	4.6	5.6
Non-oil exporters	4.2	5.5	5.5	5.3	3.7	3.9
Gulf Cooperation Council	6.9	5.3	5.3	7.3	4.8	6.0
Bahrain	7.9	6.7	8.1	6.1	3.4	4.3
Kuwait	11.4	6.3	4.7	8.5	4.1	5.5
Oman	5.8	7.5	5.8	6.4	5.5	6.2
Qatar	6.1	5.1	11.3	12.7	18.7	16.7
Saudi Arabia	5.5	3.2	3.4	6.1	3.2	4.6
United Arab Emirates	8.2	9.4	7.6	7.9	3.8	5.6

Source: EIU, 2008.

Saudi growth will also run out of steam, due to lower oil prices and production cuts. Saudi Arabia is expected to register a growth rate of only 3.2 per cent in 2009. However, assuming a gradual increase in oil production in 2010, the country should regain a firm growth trajectory of 4.6 per cent.

Qatar is likely to be the notable exception of the global GCC outlook; starting from 2009, Qatar's liquefied natural gas production is expected to increase significantly. This development will bolster its GDP and result in an average annual growth rate of 18 per cent in 2009-2010.

F. INFLATION

The expected average annual inflation rate in the GCC countries in 2009-2010 is 11.4 per cent. Prices are expected to increase by 12.3 per cent in 2009, down from a record-high of 17.9 per cent in 2008, and then fall to 10.6 per cent in 2010 (see table 7).

TABLE 7. CONSUMER PRICE INFLATION, 2005-2010
(Percentage change)

	2005	2006	2007	2008	2009	2010
Middle East and North Africa	6.5	7.8	8.9	14.2	9.4	7.8
Oil exporters	7.7	8.7	10.2	15.2	10.6	9.4
Non-oil exporters	3.1	5.2	5.3	11.4	6.0	3.5
Gulf Cooperation Council	7.6	7.9	10.7	17.9	12.3	10.6
Bahrain	2.6	2.0	3.3	7.0	4.5	3.9
Kuwait	4.1	3.0	5.5	11.7	9.0	7.3
Oman	1.2	3.0	5.9	13.5	9.6	6.0
Qatar	8.8	11.8	13.7	15.2	11.8	8.9
Saudi Arabia	0.6	2.3	4.1	9.4	4.3	3.8
United Arab Emirates	12.5	13.5	13.3	14.4	7.5	8.6

Source: EIU, 2008.

Lower inflation rates would stem from the following factors:

- (a) Scarce liquidity due to falling oil revenues and tightening credit;
- (b) Lower demand that will ease pressures on supply bottlenecks;
- (c) Lower commodity prices. In particular, lower prices of cement, steel and agricultural products, will certainly reduce the imported inflation. Given the high degree of openness of the GCC economies, this should significantly reduce the overall inflation;
- (d) Lower housing prices and rents. With the real estate market coming to a halt, rents are beginning to fall. Given that in a number of countries, such as Qatar, rents have recently been one of the main contributors to inflation, their decrease would have a marked impact on inflation rates (GIH, 2009).

However, regional inflation is expected to remain at two-digit levels, substantively higher than the long-term average for the region. This is most likely since it is expected that Governments will sustain their spending at recent levels. In addition, recent increases in public sector wages and oil subsidies will continue to exert pressure on prices.

G. CURRENT ACCOUNT

As can be seen in table 8, the combined current account balance of the GCC countries will narrow sharply over 2009-2010, but would still remain in surplus.

TABLE 8. CURRENT ACCOUNT, 2005-2010
(Percentage of GDP)

	2005	2006	2007	2008	2009	2010
Gulf Cooperation Council	27.1	27.9	22.7	25.6	8.1	10.1
Bahrain	11.0	13.8	17.2	11.3	1.1	1.9
Kuwait	42.5	50.7	42.3	39.7	19.0	19.4
Oman	16.0	14.2	5.1	12.0	0.2	2.1
Qatar	17.6	17.9	16.0	21.3	13.1	21.3
Saudi Arabia	28.8	28.0	22.5	29.1	4.3	5.3
United Arab Emirates	20.9	21.4	18.3	13.9	3.7	5.1

Source: EIU, 2008.

Indeed, after several years of massive current account surpluses, mainly fueled by significant trade account surpluses, the region is expected to register a current account surplus of only 8.1 per cent of GDP, down from an average of 25.8 per cent between 2005 and 2008. The countries that would be hit the most are Oman and Bahrain, with expected surpluses accounting for as little as 0.2 per cent and 1.1 per cent of their respective GDPs.

The current accounts of individual countries will largely be impacted by their trade accounts. The latter will in fact suffer from a sharp decrease in oil exports, both in terms of prices and volumes, that would marginally be offset by the expected contraction in imports induced by lower growth and commodity prices.

H. SENSITIVITY CHECK OF OUR ANALYSIS

The above-mentioned GCC global outlook is based on assumed prices of US\$ 35 per barrel and US\$ 50 per barrel in 2009 and 2010, respectively. However, the forecasts are highly sensitive to the assumed oil prices and the impact of these prices will vary greatly across the GCC countries. For instance, according to the International Monetary Fund, a US\$ 1 decrease in crude oil prices will imply losses in revenues of

US\$ 960 million, US\$ 300 million, US\$ 3.5 billion and US\$ 1 billion for Kuwait, Qatar, Saudi Arabia and the United Arab Emirates, respectively (MEMRI, 2008).⁵

If oil prices were to stabilize at higher levels than our assumption, it would be possible to sketch the main changes that would occur with regard to the baseline analysis. For one thing, higher prices would reduce the estimated decrease in fiscal surpluses in GCC countries. This would stem from higher export revenues and lower anticipated expenditures as stimulus packages.

In addition, higher oil prices are likely to temper the slowdown in growth in the region. That is because OPEC would not have to cut output even further, as anticipated by our main scenario. This would result in higher export revenues and higher growth. However, the United Arab Emirates is still likely to be the hardest hit country in the GCC region. Indeed, its growth dynamics is largely related to Dubai's growth, which is largely consumption and investment-driven and less dependent on oil production.

Estimated inflation should not vary much in the case of higher oil prices. The major factors behind expected falls in inflation would largely remain in play, even with higher oil prices.

Finally, higher oil prices would translate into higher current account surpluses. Indeed, higher prices would positively impact oil exports and, given an assumed reduction in the value of imports due to lower international commodity prices, this would translate into higher trade account surpluses.

IV. CONCLUSION

It is still not clear how the deep recession which began in 2008 will affect economic performance over the next two years. While this recession is by far the worst and deepest since the great depression, it has also been accompanied by significant falls in oil prices. Therefore, while previous recessions (1974-1975, 1981-1982, 1991-1992 and 2001-2002) did not have a significant negative impact on GCC countries, this current recession is different because it has been accompanied by a substantial decrease in oil prices.

This paper has examined the impact of the global financial crisis on the oil sector and the resulting effects on GCC countries, using EIU estimates of oil prices in 2009 and 2010 as the base scenario. Two additional scenarios reflecting higher oil prices were also developed, as a great deal of volatility remains concerning the global economy's future level of growth. Our scenarios reflect feasible cases as they discount the likelihood that a deep global recession would be avoided and that global economies would come roaring back to high growth levels. Our analysis also assumes that given the current global economic situation, a deep global recession is likely to last about a year before economic activity starts to recover in the United States, Europe, and then in other countries.

The study finds that the various economies of the GCC will be impacted by the global financial crisis. However, given that these countries have benefited from enormous oil revenues since 2003, the impacts are most likely to be short lived. In addition, these impacts will vary between countries, depending on the severity of the crisis and the actions taken by respective GCC Governments.

⁵ Calculated on an annualized basis.

REFERENCES

- Arab Petroleum Research Center. 2009. *Arab Oil & Gas Bulletin*, Vol. Xxxviii-No 900, 16 March.
- Economic Intelligence Unit. 2008. *Country Forecast Middle East and North Africa Regional Overview*, December.
- Energy Information Administration. 2009. *Short-Term Energy Outlook*, March.
- Husain A., Tazhibayeva K. and Ter-Martirosyan A. 2008. *Fiscal Policy and Economic Cycles in Oil-Exporting Countries*. IMF Working Paper (WP/08/253), November.
- Institute of International Finance. 2008. *Regional Report: Gulf Cooperation Council Countries*. 6 November and 4 December.
- Institute of Development Studies (IDS). 2008. *Voices from the South: The Impact of the Financial Crisis on Developing Countries*. IDS Report, November.
- _____. 2008. *Voices from the South: The Impact of the Financial Crisis on Developing Countries*. IDS Report, November.
- International Monetary Fund. 2004. *The Implications of the Global Financial Crisis for Low-Income Countries*, March.
- Khan Mushtaq. 2008. *Managing Domestic and Global Expectations*, Citi Economic & Market Analysis, 17 November.
- Naudé, W. 2009. *The Financial Crisis of 2008 and the Developing Countries*. UNU-Wider, World Institute for Development, Economic Research, Discussion Paper No. 2009/01.
- White, L.H. 2008. *How Did we Get into this Financial Mess? Cato Institute Briefing Papers*, No. 110.
- Woertz, E. 2008. *Impact of the US Financial Crisis on GCC Countries*, GRC Report, October.
- World Bank. *Swimming against the tide: How developing countries are coping with the global crisis*. Background paper prepared by World Bank Staff for the G20 Finance Ministers and Central Bank Governors Meeting, Horsham, United Kingdom on March 13-14, 2009.