Executive Summary

World Economic Trends and Prospects

Real GDP Growth

Growth of global GDP is forecast to reach 3.5 and 4.1 per cent in 2012 and 2013, respectively. Developing countries are expected to be the engine of the growth in the world economy, growing on average by 5.7 per cent in 2012 and 5.9 per cent in 2013, while the rates in developed countries are expected to remain at around 1.4 and 2 per cent in 2012 and 2013, respectively. Among the developed countries, the impact of the 2008 crisis on the US economy has been less severe compared to the others. The euro area is still forecast to go into a recession in 2012 as a result of sovereign debt and financial sector problems. On the other hand, after the post-quake re-construction that boosted the output by 4.4 per cent in 2010, Japan was in another recession in 2011.

In contrast to developed countries, growth in developing countries has been robust in 2010 and 2011. Yet, developing countries are still vulnerable to the economic woes in developed countries through trade and financial channels. Sub-Saharan Africa will continue to see a growth performance despite the high vulnerability to international commodity prices shocks.

Global Trade Volumes

The growth of world exports in goods and services decelerated to 5.8 per cent in 2011 after a full recovery to its pre-crisis peak in 2010. The recovery is undertaken by the developing countries, particularly newly industrialized Asian economies, which have large shares in the trade of manufactured goods. The export volume of developed countries, on the other hand, is foreseen to remain well-below its 2007 level even in 2012. Similar patterns are also observed in imports of goods and services. After a strong rebound of more than 12 per cent in 2010, the volume of world imports in goods and services decelerated to 5.8 per cent in 2011.

Current Account and Fiscal Balances

During the economic crisis current account balances had been deteriorated in general in all the regions and groups of countries. The only exception is the newly industrialized Asian countries in which the crisis led to improvements in current account balances. Projections show that current account surplus is foreseen to remain stable in developing countries. As the oil prices increased during the period of 2010 and 2011, current account surplus in Middle East and North Africa region bounced back, and it is projected that the surplus will further increase to 14.5 per cent of GDP in 2012. Developed countries, on the other hand, are foreseen to retain a stable current account deficit at 0.35 and 0.17 per cent of GDP in 2012 and 2013, respectively.

The fiscal withdrawal in 2013 in advanced economies is projected to amount to about 1.2 per cent of GDP, up from about 0.25 per cent of GDP in 2012. On the other hand, in developing economies, tightening is projected to drop from about 1.5 per cent of GDP in 2011 to less than 0.1 per cent of GDP in 2012. The low-income countries are expected to show a similar pattern whereas oil producers are foreseen to improve their fiscal balance position by taking the advantage of the rapid increase in oil prices.

Inflation and Unemployment

Because of the supply-side shocks, global inflation increased 4.8 per cent in 2011. In line with their growth performance in 2010 and 2011, developing countries contributed to the boost. Overall price level has been also pushed up in Japan due to the post-quake re-construction and other factors. Nonetheless, inflation is not foreseen to be a major concern for developed countries. As the weak demand and high unemployment rates persist, inflation is expected to be moderate, below 2 per cent during the forecast period.

Prices of most commodities have been on the rise over the last decade. After sharp reduction in the second half of 2008, prices could not endure at low levels for too long and began to rebound in February 2009. Increasing demand from developing economies along with the stable demand from developed countries may push the prices further up in 2012, but recent economic uncertainty – particularly coming from the euro zone- will apparently prevent significant increases in prices of most commodities for the upcoming years.

The total global unemployment rate averaged 6 per cent in 2011, remaining above the pre-crisis level of 5.5 per cent in 2007. United States is one of the origins in the recent unemployment problem with an unemployment rate jumping to 9.4 per cent in 2010. High youth unemployment is a major concern worldwide. 74.7 million young people were unemployed in 2011, which is well above the pre-crisis level of 70.7 million in 2007. Notably, more young people are in the queue for entering labour markets worldwide.

Recent Economic Developments in the OIC Countries

Production, Growth and Employment

Production and Income

Total GDP of the OIC countries has grown constantly over the period 2007-2011. Compared to $6.9 trillion in 2007, it reached $8.6 trillion in 2011. In 2011, having accounted for 22.8 per cent of the world total population, the 57 OIC member countries produced only 10.9 per cent of the world total GDP – expressed in current USD and based on PPP. According to the forecasts by IMF, this share will not improve significantly in the short-term outlook. On the other hand, the share of the OIC countries in the total GDP of developing countries group has declined steadily and was recorded at 22.2 per cent in 2011, a decrease by 1.3 percentage points.

Per capita output differential has widened further

During the same period, the average GDP per capita in the OIC countries has increased continuously and reached $5,507 in 2011, compared to $4,724 in 2007. However, the gap between the average per capita GDP levels of the OIC member countries and other developing countries has widened further. The per capita GDP differential between the two groups in the period 2007-2011 has more than doubled from $739 to $1,497. The average GDP per capita in the OIC countries has diverged also from the world average as the differential increased from $5,438 to $5,984 during the same period.

Imbalances among the member countries remain

Diverse economic characteristics of the group of OIC countries manifest themselves through significant variations in their contributions to the group's economic aggregates. For example, in 2011, only 10 countries produced 73.4 per cent of the total OIC countries' output. The level of per capita output in the richest member country was, on the other hand, 18.7 times higher than that of the OIC countries average, pointing to a high level of income disparity between the OIC countries.

Economic Growth

The OIC countries, as a group, recorded an average growth rate of 5 per cent in their real GDP in 2011 compared to 5.9 per cent in 2010. Although the OIC countries have recovered from the negative impacts of the slowdown in the global economic activity, the deceleration in 2011 which is expected to spread further into 2012 and 2013 indicates that the OIC member countries are not exempt from the downside risks facing the world economy. During 2009-2011, average growth of the OIC countries has even outpaced the average growth of the other developing economies excluding China and India. However, the outlook for 2012-2013 is unsettled, with an expected moderation in the average rate of growth in the OIC countries to 4.6 per cent in 2012 and 4.4 per cent in 2013. Yet, these figures are still better than the predicted average growth rates for the group of other developing economies excluding China and India, as well as the world as a whole. Qatar, with a growth rate of 18.8 per cent in 2011, was the fastest growing economy both within the group of OIC countries and in the world.

Per capita GDP growth unrestored

Although the per capita GDP growth in OIC countries was restored to its pre-crisis levels in 2010 with an average growth rate of 4 per cent in that year, the upward trend was interrupted in 2011 as the global economy encountered another round of problems – mainly stemming from the sovereign debt crisis in the euro area. With a 3.3 per cent growth in 2011, per capita GDP growth in OIC countries is projected to slide further during 2012-2013.

GDP by Major Economic Activities

After showing signs of contraction during the crisis period and the resulting decrease in its share in 2008, the average share of the service sector in total GDP of the OIC countries started to recover and the sector continued to be the most important source of income in OIC countries as a group during 2009-2010. Industry sector – including manufacturing – accounted on average for 42.8 per cent of the total GDP of the OIC member countries in 2010. Compared to other developing countries where the sector's contribution to the GDP averaged at 37.4 per cent in 2010, industrial activity apparently constitutes a larger portion of the economic activity in the OIC member countries.

GDP by Major Expenditure Items

In 2010, final consumption continued to be the largest expenditure item in the group of OIC member countries, accounting for as much as 69.1 per cent of the total GDP – which is 2.9 per cent below the previous year's level. Notably, in Afghanistan, Comoros, Guyana, Kyrgyzstan, Palestine and Tajikistan, total final consumption expenditure, per se, exceeded the total GDP of the country. The decrease in the share of final consumption was mainly accommodated by an expansion in the share of net exports of the member countries as a group.

High levels of final consumption expenditure, on the other hand, prevent the group of OIC countries from investing sufficiently in productive capacities. Indeed, the share of gross capital formation in the GDP of OIC countries as a group has improved since year 2000 but is still significantly below the levels observed in other developing countries.

Employment and Productivity

In OIC member countries the total participation rate of those aged 15 and above stood in 2010 at 58.9 per cent compared to 64.2 per cent in the world. According to the latest available data, OIC countries recorded significantly higher unemployment rates compared to the world, developed and other developing countries during the period 2006-2010. During this period, total unemployment rate in OIC countries initially decreased from a level above 9.9 per cent in 2006 to below 9.0 per cent in 2008. However, triggered by the crisis, the unemployment rate peaked to 9.7 per cent in 2009 before declining to 9.4 per cent in 2010.

OIC member countries recorded labour productivity levels comparable to those of the other developing countries. However, this level remained very low compared to the level of the world and developed countries. An average worker in OIC countries produces less than one third of the output produced by an average worker in the world and one tenth of the output of average worker in the developed countries.

Inflation

Unprecedented surge in food and energy prices during 2007-2008 pushed average inflation in the OIC countries above to double-digit levels. The moderation observed in 2009 was again replaced by an upward trend during 2010-2011, which was mainly due to the steep increase in inflation in Iran, where the government subsidies are reallocated within the context of new subsidy reform plan. The outlook for 2012 is still vulnerable to still-elevated inflationary upside risks mainly due to the continued momentum in the large OIC economies such as Bangladesh, Indonesia, Iran, Nigeria, Pakistan, Saudi Arabia and Turkey.

Foreign Trade

Trade in Goods

In 2011, total merchandise exports of the OIC countries reached to its historically highest level of $2.1 trillion and surpassed the pre-crisis peak of $1.9 trillion in 2008. More importantly, this increase was higher than the world average, resulting in an increase in the share of OIC countries in total world trade. Compared to its pre-crisis level of 11.8 per cent in 2008 and previous level of 11.1 per cent in 2010, this share reached to 12 per cent in 2011. Similarly, after declining to $1.2 trillion in 2009, merchandise imports of OIC countries increased almost 50 per cent just in two years and already surpassed its previous peak of $1.5 trillion achieved in 2008. The share of OIC countries in global merchandise imports continued to increase throughout the period under consideration and reached to 9.7 per cent in 2011.

In 2011, the top 5 exporting countries accounted for more than 53 per cent of total merchandise exports of all member countries and top 10 exporting countries accounted for more than 76 per cent. Saudi Arabia, with more than $300 billion exports and 15.5 per cent share in total, became the largest exporter in 2011. As in the case of exports, merchandise imports of OIC countries are also heavily concentrated in a few countries. While the top 5 importers accounted for more than 53 per cent of total OIC imports, the top 10 countries accounted for 71.4 per cent. With more than $240 billion imports, Turkey took the lead in 2011 in terms of volume of merchandise imports and accounted for 13.6 per cent of total merchandise imports of OIC countries.

Export Structure

OIC countries are becoming increasingly more diversified and relieve from high dependence on few export items. The simple average of export concentration index in OIC countries was around 0.31 in 2006, but it decreased to around 0.18 in 2011, indicating increased diversification in export products. Decomposition of exports by technology intensity in OIC countries reveals that the share of most vibrant export commodity group, mineral fuels, decreased from 59 per cent in 2006 to 48 per cent in 2010 and the shares of all other remaining categories rose. The share of least technology intensive commodities is, however, extremely high in some member countries, increasing their vulnerability to international price shocks and limiting their prospects for long-term competitiveness.

Trade in Services

Unlike the trade in goods, the volume of trade in services remained significantly lower in OIC countries and they demonstrate a falling trend since 2008. Together, OIC countries are net importer of services. While they exported $237 billion when it reached to its highest level in 2008, they imported $397 billion worth of services in the same year. As of 2010, exports and imports of services dropped to $183 billion and $288 billion, respectively. Accordingly, the share of OIC member countries in world services export decreased from 6.1 per cent in 2008 to 5 per cent in 2010. Their share in total services import in the world also fell from 10.9 per cent and to 8.7 per cent. When the trade of OIC countries in services are disaggregated under subsectors, it is observed that the bulk of their trade in services is classified under transportation and travel services.

In 2010, the top 10 countries accounted for 89.4 per cent of total services exports of OIC countries. Turkey, with $34.4 billion exports and 18.8 per cent share in total services exports of OIC countries, was the top exporter in services in 2010. In the same year, the top 10 importers accounted for 88.3 per cent of total services imports of OIC countries. Saudi Arabia was the top importer of services ($76.7 billion), corresponding to 26.6 per cent of total services imports of OIC countries.

Trade Balance

OIC countries recorded a trade balance surplus in merchandise trade in each year from 2007 through 2011. Though it did not reach to its pre-crisis level, trade surplus in OC countries was over $350 billion in 2011, indicating a strong recovery after the crisis. In contrast, OIC countries recorded trade deficit in services trade over the period under consideration. After reaching almost $160 billion in 2008, their deficit fell to $105 billion in 2010. In 2010, around 50 per cent of exports of services in OIC are made in travel or tourism sector, which require relatively less sophisticated infrastructure and knowledge.

Intra-OIC trade

From 2006 to 2010, the share of intra-OIC trade in OIC total trade continuously increased. Intra-OIC trade accounted for 17.6 per cent of total OIC trade in 2010, and it declined slightly to 17.3 per cent in 2011. In 2011, although intra-OIC export reached to its highest level of $322 billion, its share in total exports of OIC countries witnessed a decline of 0.7 percentage points, falling to 15.1 per cent. During the period of 2010-2011, intra-OIC imports increased rapidly and reached to $354 billion in 2011, corresponding to 20.0 per cent of OIC total imports. In 2011, 78.3 per cent of the intra-OIC exports were undertaken by only 10 OIC countries.

Trade Policy

Most of the member countries experienced a fall in their openness to trade, mostly due to contraction in international trade during the period of 2007-2011. By applying an average of 11.3 per cent tariff rate, OIC countries reveal a more protectionist picture when compared to the world average of 9 per cent. This ratio doubles the tariff rates applied by major developed countries.

Balance of Payments and External Financing

Current Account Balance

After witnessing a decreasing trend between 2007 and 2009, current account surplus increased in OIC countries in the following two years, parallel to the improvement in world current account balances (Figure 4.1). For OIC member countries, current account balance surplus accounted for almost 8 per cent of GDP in 2011 compared to 2 per cent in 2009. This increase is mainly generated by oil exporters thanks to rapidly rising oil prices.

External Debt

The total external debt stock of the OIC countries showed an increasing trend during the period 2006-2010. In 2010, the total external debt of the OIC countries exceeded $1 billion, with 8 per cent increase from 2009. Nevertheless, the Debt to GDP ratio of the OIC countries and their share in the total debt of developing countries indicate a downward trend throughout the period under consideration. The debt to GDP ratio of OIC countries, as a group, was around 23 per cent in 2006; however, it steadily declined in the following years to reach 20 per cent in 2010 after a slight increase in 2009. The composition of the total external debt of the OIC countries and other developing countries differ. Even though long-term debt accounted for the largest share of total external debt in both country groups, its portion in OIC countries remained comparatively high.

Foreign Direct Investment Flows

Foreign direct investment (FDI) has been significantly rising since 2009. World total FDI flows, with an annual increase of 16.5 per cent, amounted to $1,524 billion in 2011 with most of these flows went increasingly to developed countries. However, FDI inflows to OIC countries were generally unsatisfactory. Nevertheless, there was a notable improvement in these flows as they increased up to $171.5 billion in 2008, however, parallel to the global trends, FDI flows to OIC member countries declined to $133 billion in 2009. Although there was a slight increase in the volume of FDI flows in 2010, there was another decline in 2011 to $134 billion. As was the case in most of the major macroeconomic aggregates, FDI flows into OIC countries also concentrated in a few of them. In 2011, only five countries, together, accounted for 52.1 per cent of the total FDI flows to all OIC countries

Official Development Assistance Flows

In 2010, net official development assistance flows from all donors to developing countries reached $91.5 billion compared to $83 billion in 2006. However, during this period, there was a decline in ODA flow to OIC countries from $49.1 billion in 2006 to 41.5 billion in 2010. It is also observed that ODA flows to the OIC member countries are concentrated in a few of them. Only five countries, together, accounted for almost 40 per cent of the total ODA flows to all OIC countries in 2010. On the other hand, ODA-to-GDP ratio in OIC countries also declined to 0.8 per cent in 2010 from 1.5 per cent in 2006. ODA per capita has witnessed the same trend in line with the net ODA flow. It declined in OIC member countries from $34.3 in 2006 to $26.7 in 2010.

Reserves Position

The world total reserves –excluding gold- amounted to 10.1 trillion in 2011 almost 40 per cent higher than the amount in 2007. Of this amount, $3.2 trillion was recorded in the developed countries. The share of OIC countries in total reserves showed a declining trend during the period under consideration. With 0.26 percentage points decline from the previous year, it reached down to 22.13 per cent in 2011, compared to 25.71 per cent in 2007. Yet, it is observed that the bulk of the total reserves of the OIC countries are still accumulated in a few of them where only 10 countries accounted for 86.3 per cent of the total reserves of OIC group in 2011. In terms of the reserves equivalent to monthly imports, OIC countries remained far above the world average. In 2010, with the exception of Sudan, all OIC member countries for which the data are available kept reserves equivalent to import value of more than three months threshold level.

Remittances

The inflows of remittances to OIC member countries increased from $58.7 billion in 2006 to $87.6 billion in 2010 even though the growth rate of these inflows decreased from a high record of 26.1 per cent in 2007 to 4.6 per cent in 2010. The inflows of remittances into OIC countries also concentrated in a few of them. Only 10 countries, together, accounted for 76.6 per cent of the total remittances inflows to all OIC countries.

Developments in the Financial Sector

The degree of financial development varies substantially across the OIC region. This, in turn, offers a significant room for improvement and intra-OIC cooperation. Particularly when the depth of financial markets, accessibility to financial services and the degree of financial openness are considered, the results reveal that more needs to be done to reinforce the institutional capacities and promote the development of the financial sector in the OIC member countries.

Financial Deepening

The volume of broad-money – a commonly used indicator of financial deepening when measured as a percentage of the gross domestic output – is slightly over 50 per cent of the GDP in 2011 and compares poorly to other developing countries where it has reached levels on average close to the size of the GDP. In developed countries, on the other hand, the amount of broad money in the economy far exceeds the size of the GDP. Apparently, the financial system in OIC member countries is deprived of the financial access, liquidity, diversification and stability benefits offered by deeper financial markets.

Access to Finance

Low penetration of financial services, in terms of both their use and physical outreach, introduces another challenge for the development of the financial sector in the member countries. The relative sizes of commercial bank loans and deposits with respect to the GDP are smaller when compared to other developing as well as developed countries. This situation is compounded by the inadequacy of financial sector physical infrastructure which is measured by population and land densities of commercial bank branches and automated teller machines (ATMs). Notably, in 2010, there were only 14 ATMs servicing per 100,000 adults living in the member countries, as compared to 60 in other developing countries and 141 in developed countries.

Financial Openness and Exchange Rate Policies

OIC countries are less financially open, as suggested by their scores in the Chinn-Ito Financial Openness Index, and, thus, they are more conservative in managing their capital accounts and they impose relatively more intensive restrictions on the flow of capital through their financial systems. In terms of financial sector development, this state of affairs indicates that financial system in the member countries is relatively less capable of effectively managing international capital inflows with the help of efficient domestic financial markets and appropriate products. This situation also manifests itself in the selection of monetary policy frameworks and exchange rate regimes as, according to the IMF, 48 OIC member countries out of 56 for which data are available *de facto* implement capital account restrictions to varying extents either through hard peg regimes such as currency board, conventional pegs such as exchange rate anchor, soft regimes such as crawling peg, or intermediate regimes such as managed float.

Energy Sources

Energy is a key factor for economic development and, thus, rising living standards. It is required for satisfying all of the basic demands, from agriculture, education, infrastructure to information services. Energy is also a key factor in economic growth, which is among the most important factors to be considered in projecting changes in world energy consumption. There are three groups of energy sources: fossil fuels, renewable energy and nuclear power. Fossil fuels are the remains of decomposition of plants and animals which forms in finite supply. There are also three main types of fossil fuels: coal, petroleum and natural gas. Renewable energy is coming from the natural sources such as wind, rain and sunlight.

World's current recoverable coal reserves are approximately 948 billion tons. Coal reserves are very limited in OIC countries. Only 5.75 per cent of the world's recoverable coal is hold by OIC member states. Accordingly, the coal production of the OIC countries only constitutes 7.3 per cent of the world total production. On the other hand, in 2010, the coal consumption of the OIC countries increased to 297.9 million tons which is almost 61 per cent higher than the level in 2000.

By 2011, recoverable natural gas reserves worldwide were approximately 6216.605 trillion cubic feet (Tcf) of which the OIC countries held 62.1 per cent of the world total. The OIC countries produced 35862 billion cubic feet (Bcf) of natural gas in 2010 compared to 9493 Bcf in 1990 which is equivalent to an annual average growth rate of 5.25 per cent between 2000-2010 compared to 8.52 per cent between 1990 and 2000. The natural gas consumption of the OIC countries also remained above the average for the period under consideration. In 2010, the consumption increased to 25563 (Bcf) which is almost 71.5 per cent higher than the level in 2000.

In 2011, world crude oil reserves reached to 1.5 trillion barrels, of which OIC countries represent a share of 63 per cent equivalent to 911 billion barrels. At the individual country level, Saudi Arabia, alone, with total proved oil reserves of 263 billion barrels, possesses 18 per cent of the world total crude oil reserves and 29 per cent of the OIC total. In 2011, the crude oil production of the OIC countries constituted 44 per cent of the world total, which was 5 percentage points higher than the share observed in 1990. In 2008, OIC countries had a trade surplus of 23 million barrels of crude oil per day, compared to 16.9 million barrels per day in 1990 which simply implies the significant increase in oil export of the OIC member countries. However, the OIC countries could only produce 11.4 million barrels of refined oil even though they amounted to 38.3 million barrels of crude oil per day. This is simply due to the low capacity of the OIC countries to refine crude oil. On the other hand, non-OIC developing countries and developed countries represented a different trend. Both of the country groups had better refining capacity.

Investment in wind energy has shown impressive growth rates in OIC member countries since 2006. It increased to 2.2 GW in 2011 from only 0.53 GW in 2006 which is almost quadrupled. Yet, it is worth mentioning that the percentage of total wind generation capacity in OIC countries constitutes only 1 per cent of the worldwide wind capacity by 2010. This ratio is expected to be 2 per cent in 2020. The OIC countries, as a group, generated 0.19 million MWh of hydroelectric power, approximately 50 per cent higher than the amount generated in 1990, with an annual average growth rate of 2 per cent which is higher than the EU average (0.6 per cent) in the same period. Yet, the OIC countries were able to generate only 6.0 per cent of the world hydroelectric power generation in 2009.

Economics of Natural Disasters

There is a considerable increase in the frequency of natural disasters in the world during the period 1970-2011, increasing from below 100 disasters per year in the 1970s to 450 disasters in the 2000s. Compared to the world level, OIC countries experienced relatively steeper trend over the same period, indicating a six fold increase in the number of natural disasters, increasing from about 20 disasters per year in the 1970s to almost 120 disasters in the 2000s. Natural disasters cost OIC countries $140 billion in the period 1970-2011. As for cost per occurrence, it is observed that damages of natural disasters are becoming more costly in monetary terms. While the average cost per occurrence was $26 million in the 1970s, this figure reached $60 million in the 2000s.

During the period 1970-2011, damages of natural disasters ranged between 0.11 per cent and 1.25 per cent of total GDP of OIC member countries. Considering the saving rates in OIC countries, it is observed that much of these savings are considerably worn down by natural disasters. For example, in Tajikistan damages of natural disasters in a year corresponded to almost 35 per cent of the country's savings during the same period. Particularly for small economies, damages of natural disasters may correspond to higher share of their GDPs, and hence it will be harder to absorb such severe exogenous shocks. For example, damages of Great Flood in Guyana, affecting over half of its population, reached almost 60 per cent of Guyana's GDP in 2005.