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# OIC OUTLOOK

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## GOVERNMENT DEFICIT/SURPLUS IN THE OIC MEMBER COUNTRIES

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# OIC OUTLOOK

## GOVERNMENT DEFICIT/SURPLUS IN THE OIC MEMBER COUNTRIES

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### INTRODUCTION

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Analyzing government deficit/surplus of countries gives some idea about government fiscal (taxation and spending) policies of the countries since it is the difference between total revenues and total expenditures (including capital expenditure) of the governments. Taxes, social contributions, dividends, and other property incomes constitute the main components of the revenues of the governments. On the other hand, the main expenditure items are compensation of civil servants, social benefits, interests on the public debt, subsidies and gross fixed capital formation.

Comparing the performances of a group of countries in this regard can be done by analyzing the trends in government deficits or surpluses. A common way of doing this is comparing deficits or surpluses as a share of GDP. In this connection, this short report undertakes a comparative analysis between the OIC countries, while also evaluating the case in the OIC countries vis-à-vis the World, the low income countries, the middle income countries, and the high income countries, as well as the EU-15, the African Union, the ASEAN and the Arab League.

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### GOVERNMENT DEFICIT/SURPLUS (% OF GDP): OIC, WORLD, LOW INCOME COUNTRIES, MIDDLE INCOME COUNTRIES AND HIGH INCOME COUNTRIES

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When the 14 OIC countries, for which the data are available in Table 1 are considered individually, it is seen that only 5 of them had surplus in 2005. This number is 4 for 2004 and 3 for 2003. This shows that there is an increase in the number of OIC countries whose government budget records a surplus in the period 2003-2005 reflecting that the number of OIC countries implementing adequate fiscal policies has been increasing over time. While Afghanistan, Albania, Bangladesh, Lebanon and Sierra Leone seem to be improving continuously over the years, the situation in Cote d'Ivoire, Jordan, Malaysia, Maldives and Uganda seem to worsen. Iran and Kuwait appear as exceptional countries with surpluses for all of the years.

Table 1: General Government Budget Balance (Surplus/Deficit) (% of GDP)\*, 2005

|                         | 2001         | 2002         | 2003         | 2004         | 2005         |
|-------------------------|--------------|--------------|--------------|--------------|--------------|
| Afghanistan             |              |              | -1.75        | -0.65        | 0.87         |
| Albania                 |              | -6.66        | -2.88        | -2.98        |              |
| Algeria                 | 4.33         | 1.16         |              |              |              |
| Bahrain                 | 6.05         | -0.32        | 2.47         | 5.70         | 8.32         |
| Bangladesh              | -0.66        | -0.17        | -0.12        | -0.73        |              |
| Benin                   |              |              |              |              | -10.29       |
| Burkina Faso            |              |              |              | -4.41        | -3.69        |
| Cote d'Ivoire           | 2.76         | 1.68         | -2.51        | -1.69        | -1.49        |
| Egypt                   | -5.52        | -5.75        |              |              |              |
| Indonesia               |              | -0.30        | -2.32        | -1.10        |              |
| Iran                    | 0.98         | 0.71         | 1.64         | 4.09         | 7.39         |
| Jordan                  | -3.14        | -3.13        | -0.32        | -1.44        | -4.69        |
| Kazakhstan              | 0.06         | 0.35         | -0.61        | 0.22         | 2.57         |
| Kuwait                  |              | 1.38         | 5.68         | 4.61         | 8.16         |
| Kyrgyz Republic         | -0.76        |              |              |              |              |
| Lebanon                 | -15.43       | -13.01       | -13.44       | -8.45        |              |
| Malaysia                | -3.02        | -6.28        | -4.29        |              |              |
| Maldives                | -5.09        | -5.13        | -5.24        | -3.57        | -13.31       |
| Morocco                 |              | -5.53        | -4.82        | -4.27        | -5.60        |
| Oman                    | -2.80        |              |              |              |              |
| Pakistan                | -3.79        | -2.89        | -2.91        | -1.95        | -3.15        |
| Senegal                 | -2.21        |              |              |              |              |
| Sierra Leone            | -9.18        | -8.26        | -5.64        | -2.48        |              |
| Tajikistan              | -0.15        |              | -4.57        | -6.61        |              |
| Togo                    |              |              |              | -0.32        | -5.75        |
| Tunisia                 | -2.34        | -2.35        | -2.37        | -2.80        | -3.00        |
| Turkey                  | -15.59       | -14.48       | -11.18       | -6.78        | -1.42        |
| Uganda                  | -0.98        | -3.72        | -3.77        |              |              |
| <b>OIC Average</b>      | <b>-3.05</b> | <b>-1.97</b> | <b>-1.67</b> | <b>-0.10</b> | <b>2.46</b>  |
| <b>World Average</b>    | <b>-0.15</b> | <b>-1.78</b> | <b>-2.56</b> | <b>-2.20</b> | <b>-1.40</b> |
| <b>High Income C.</b>   | <b>0.19</b>  | <b>-1.72</b> | <b>-2.63</b> | <b>-2.38</b> | <b>-1.82</b> |
| <b>Middle Income C.</b> | <b>-2.85</b> | <b>-1.69</b> | <b>-2.00</b> | <b>-0.99</b> | <b>2.70</b>  |
| <b>Low Income C.</b>    | <b>-3.86</b> | <b>-4.09</b> | <b>-3.41</b> | <b>-3.20</b> | <b>-2.84</b> |

\* Data in local currencies on cash deficit/surplus and GDP are from the World Bank's World Development Indicators Online Database. These are converted into USD and the ratios of government deficit or surplus to GDP are calculated.

From Figure 1, it can be seen that only Afghanistan, Bahrain, Iran, Kazakhstan and Kuwait have surpluses in 2005. One should note that all of these countries are producers of oil. In particular, the ratio of government surplus to GDP was highest in Bahrain in 2005 which equaled to 8.32 percent. Maldives and Benin are the two most striking countries with the highest deficits as percentage of GDP, -13.31 percent and -10.29 percent, respectively.

Figure 1: Government Deficit or Surplus (% of GDP), 2005, OIC Countries

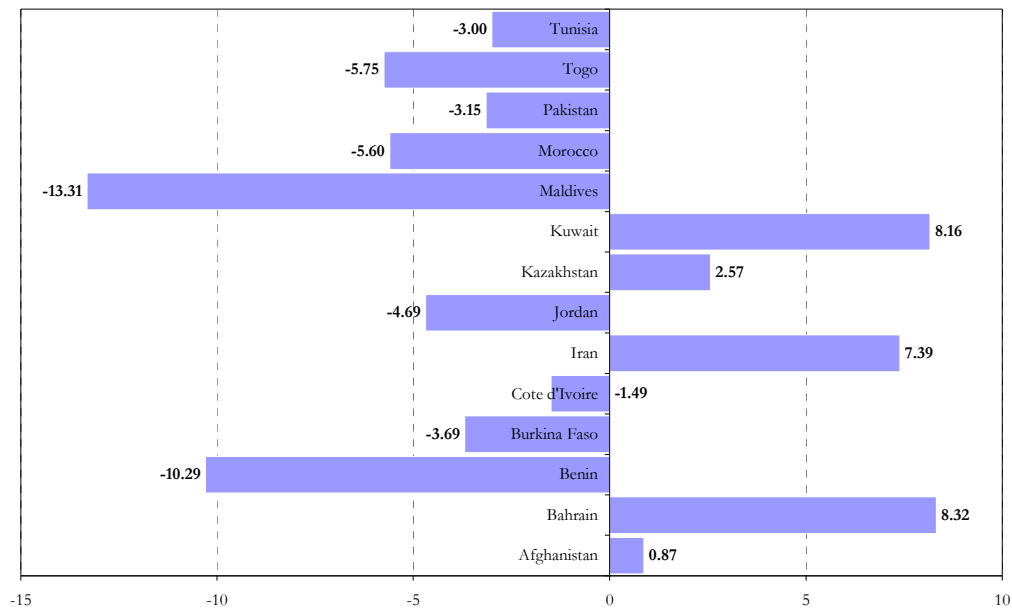
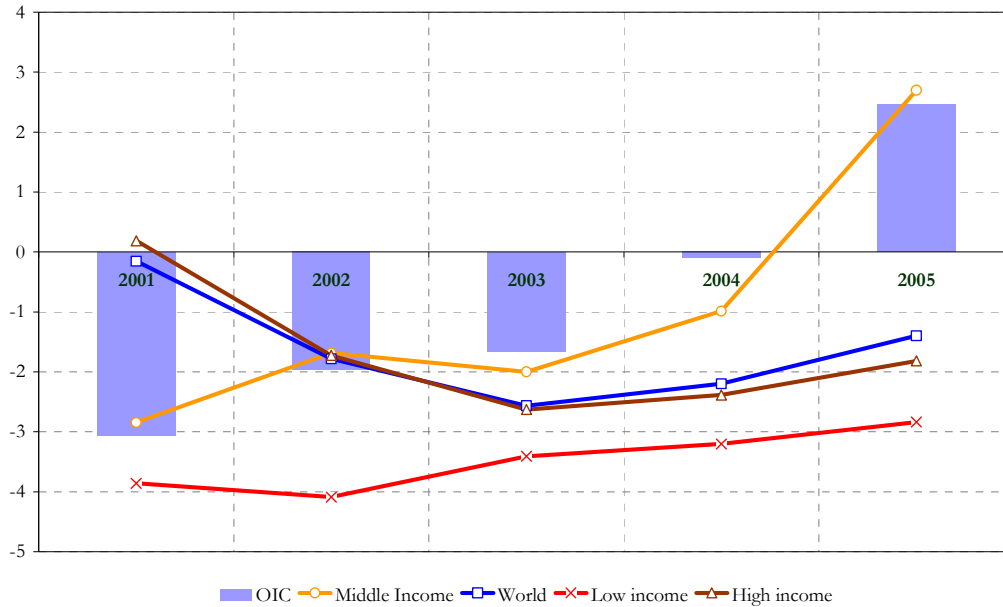


Figure 2 presents the average figures for the groups which are also given at the end of Table 1 above. It is seen that World and high income countries follow almost the same trend. Their deficits as a percentage of GDP increase in years 2002 and 2003, following 2001, which was a better year, but even a greater improvement can be observed in 2004 and 2005. Low income countries also have a similar trend but at a lower level, only showing a slight difference in 2003. On the other hand, the OIC countries and the middle income countries have similar trends of continuous improvement during the years under consideration. However, one thing should be noted at this point. The average for the OIC countries is calculated by only considering the 14 countries in Table 1 since data is not available for the other OIC countries. One should notice that these countries are mostly middle income countries. If all of the high and low income countries of the OIC could be included in the calculations, the parallels between the OIC countries and the middle income countries might disappear.

One other important fact that Figure 2 reflects is that the group of the 14 OIC member countries is in a much better position than the other groups in both 2003 and 2004, even when compared with the middle income group. For the year 2005, these countries are in a better position as compared to all of the groups except the middle income group. Eventually, one can say that, on average, there is a bright outlook at least for these 14 OIC countries.

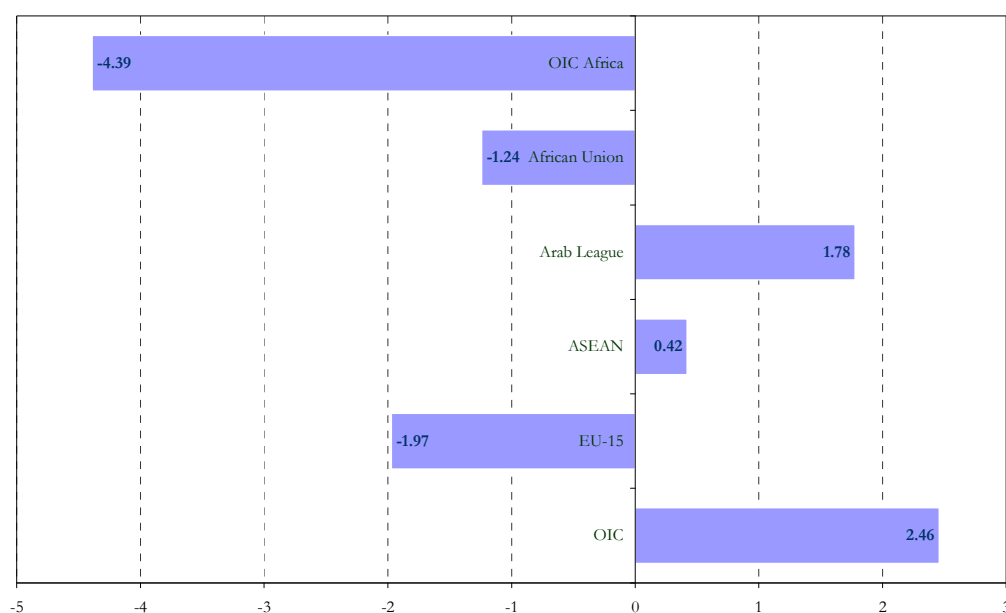
Figure 2: Government Deficit or Surplus (% of GDP), 2001-2005



**GOVERNMENT DEFICIT/SURPLUS (% OF GDP)  
OIC, EU-15, ASEAN, ARAB LEAGUE, AFRICAN UNION**

In Figure 3, 2005 averages for several groups, namely, the OIC, the EU-15, the ASEAN, the Arab League and the African Union can be seen. In addition to those the average for the African countries that exist in Table 1 is also included to the figure. The reason for including this small group to the analysis is to show its similarity with the African Union. Both of them realize deficits. This situation indicates that the relatively better state of affairs of the OIC countries relative to the EU-15, the African Union, the ASEAN and the Arab League could be reversed if all of the African countries could be included in the analysis. Still, it is encouraging that these 14 OIC countries are in a better position than the other groups with an average surplus of nearly 2.5 percent of their total GDP. The relatively better performance of the OIC countries can be attributed to the fact that the overall performance of the Arab League was good in 2005.

Figure 3: Government Deficit or Surplus (% of GDP), 2005, Groups



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## POLICY IMPLICATIONS

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The OIC countries, in general, show similar characteristics with the middle income countries in terms of budgetary performance in this report. Yet, most OIC countries may not show the same performance as majority of the countries not included in the report are from different income groups. While this necessitates those countries to be more cautious in deciding on their future policies and actions it also reminds one of the opportunities that lies ahead for them since as a group of OIC countries still are doing well. Overall, we may emphasize that the budgetary outlook remains bright for the OIC countries although there is a need for being cautious.

As challenges for those countries are imminent and that there is no specific diagnose for it, there is no doubt that there remains a great challenge for the OIC countries. Furthermore, taking into account the challenges ahead, there is a greater need for the OIC member countries to take appropriate measures both nationally and regionally. As a matter of fact, without any concrete measures taken at the regional level, there can not be any solid achievement for the OIC member countries both in terms of economic development and fighting with global challenges which would in return weaken the future prospects in the budgetary outlook. Thus, it appears to be necessary to focus on certain issues and related policies to identify a roadmap acceptable to all the OIC member countries. In doing so, the following policy implications appear to be in place.

- To encourage investment in human and physical capital needed to maintain economic growth as well as global competitiveness, particularly in products which those countries are specialized in producing.
- To create economic incentives, including the curbing of foreign trade taxes.

- To invest in resource development projects to generate additional revenues for resource-rich countries.
- To make budget reform to avoid deficit spending.
- To invest in research and development (R&D) to identify potential sectors for development.
- To secure more grants, especially for those countries which have unsustainable debt and living in poverty.
- To be aware of regional and global developments at all times and to take necessary measures to prevent unexpected and untimely development which would provide a negative impact on the OIC countries, particularly as most of them are developing countries and faced with developmental challenges.
- Try to create a wider network of regional groupings to play a more influential role in the global arena.