OFFICE OF THE CHIEF ECONOMIST

# The New Petrodollar Flows

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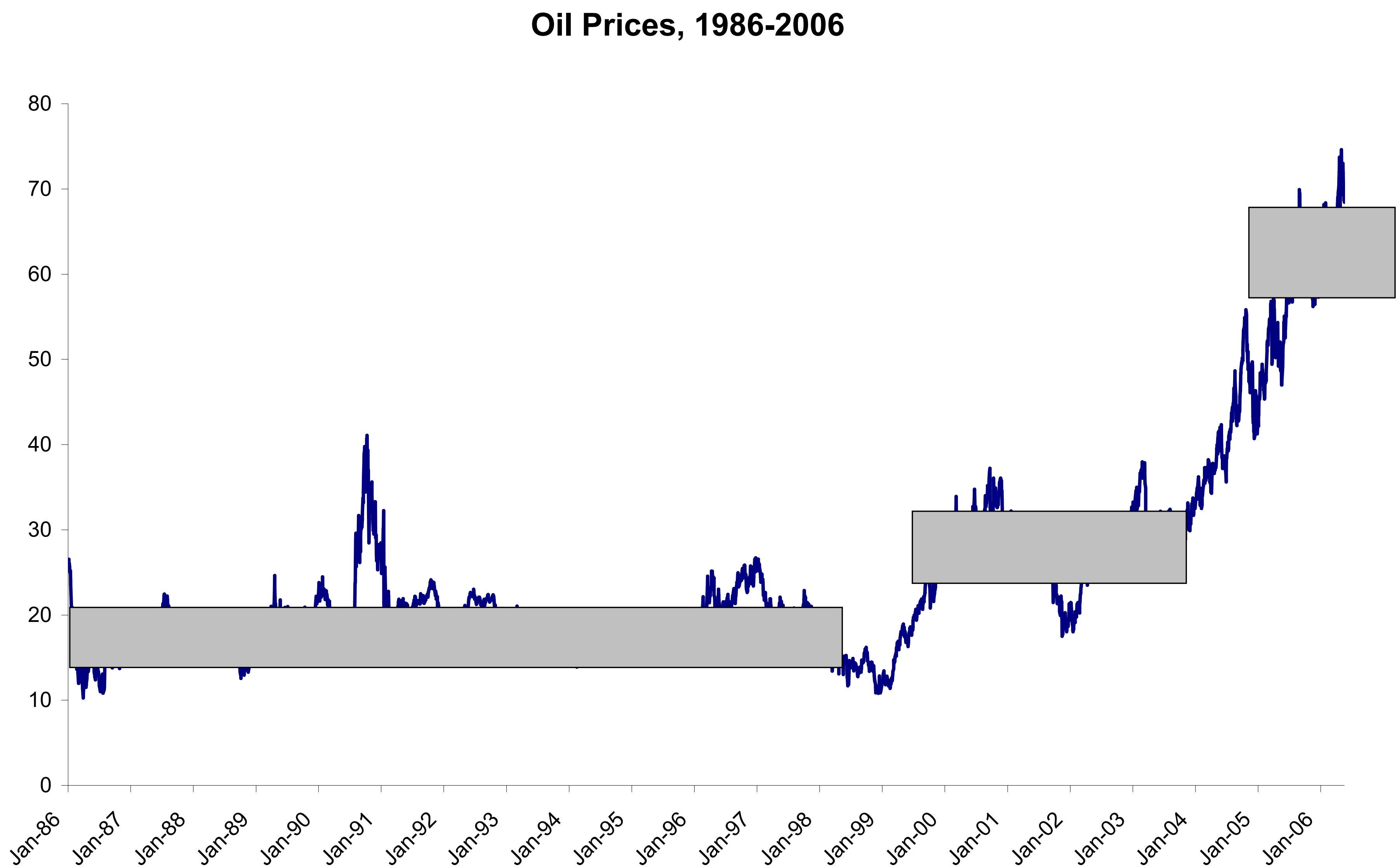
# Oil Price Trends



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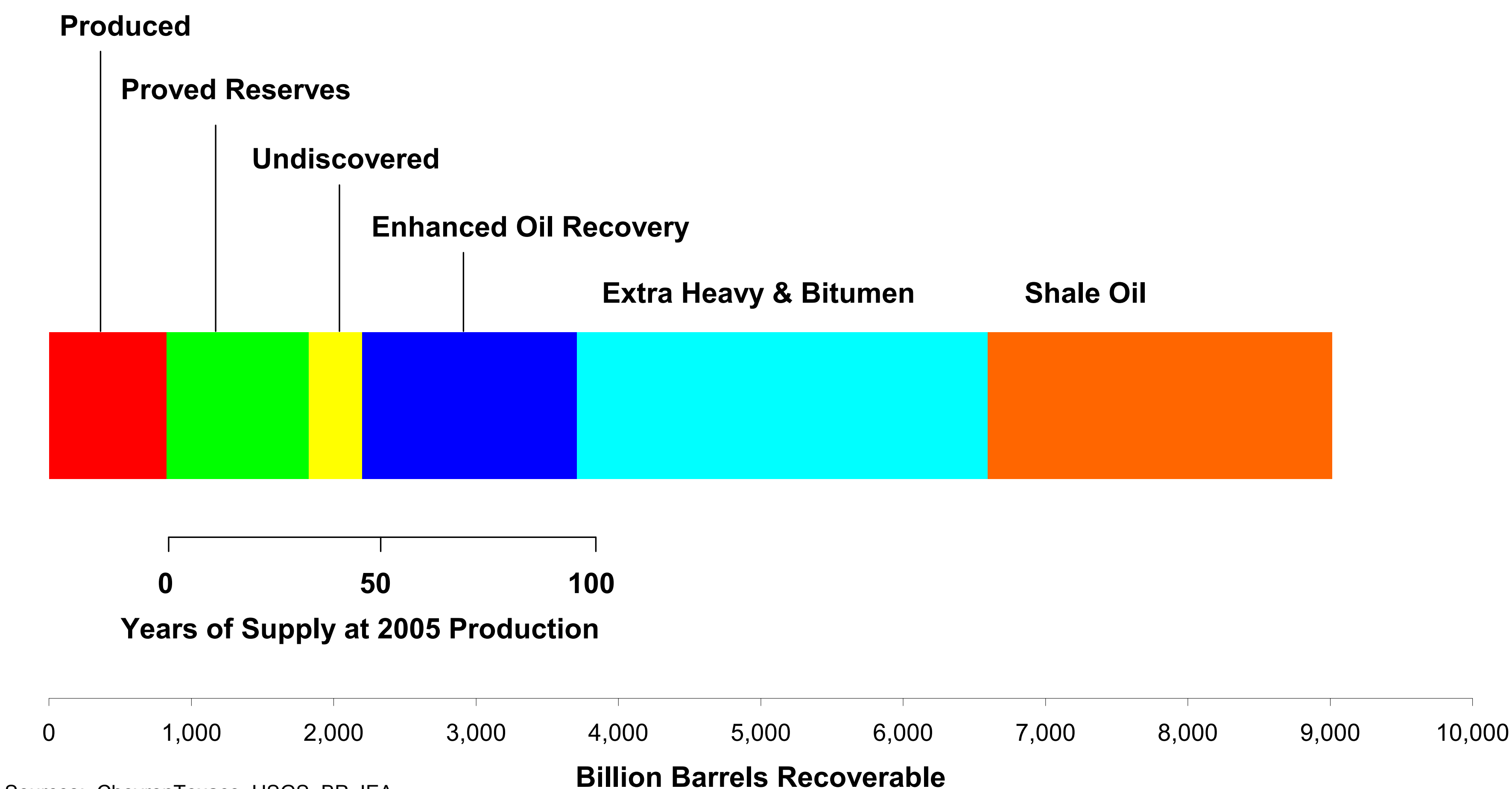
# Capital Flows

If remaining proved oil reserves sell for $50/barrel, then:

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

# Global Oil Resource Base

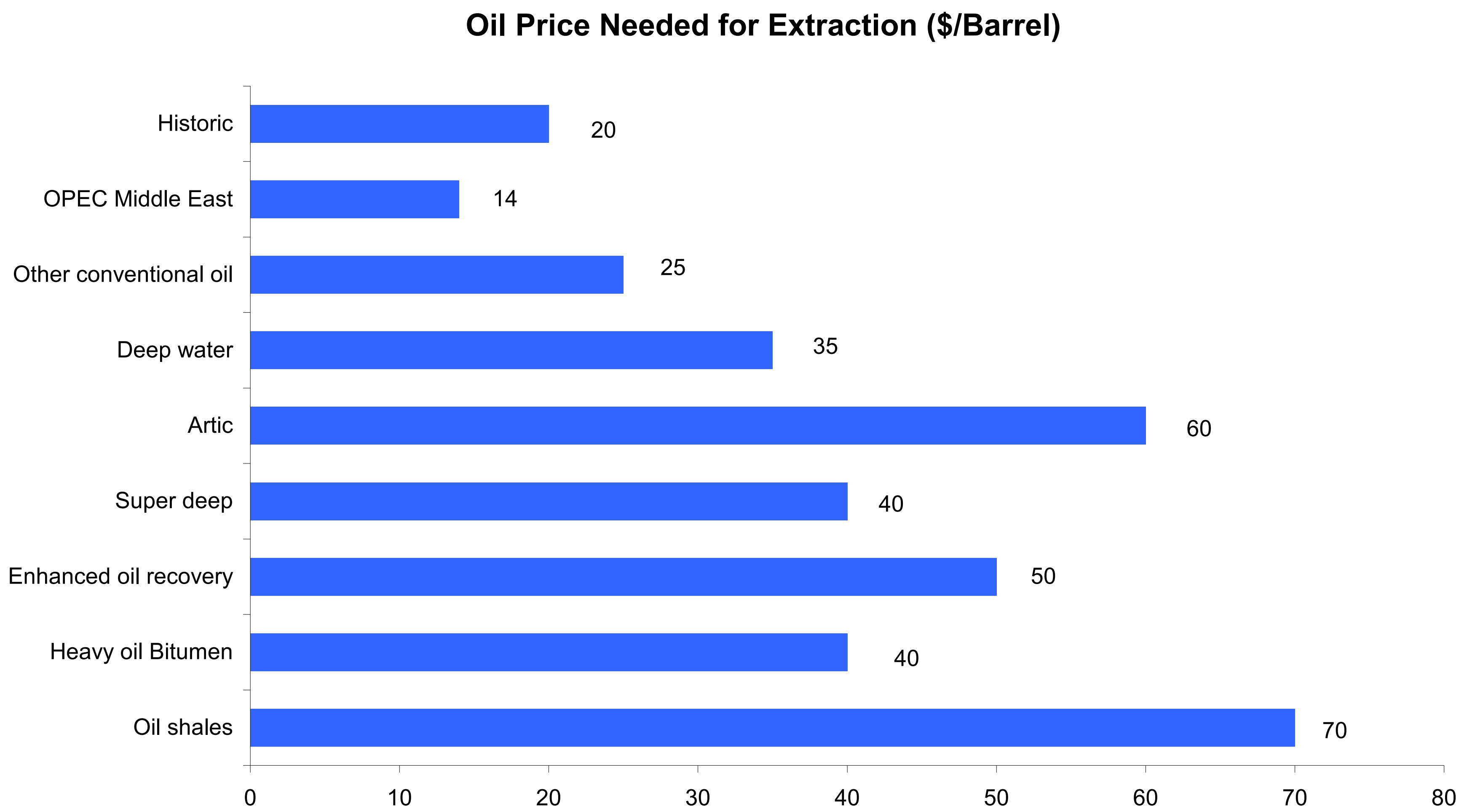





Sources: ChevronTexaco, USGS, BP, IEA

# Exploiting the Resource Base






Source: IEA

# Comparing Booms

## Then (1976-1982):

- Oil Prices: Crisis-driven and short-lived highs
- Capital Flows: Limited local absorptive capacity. Contracts go to foreign firms
- Government: Dominates the economy, especially utilities
- Wealth Distribution: Limited channels for distributing oil wealth. No stock market
- Institutional Depth: Limited institutional infrastructure to handle windfall
- Infrastructure: None, oil wealth devoted to basic infrastructure

## Now:

- Demand-driven and sustained high prices
- Inward Bias. Contracts go to domestic companies. FDI inflows. Central bank foreign asset growth
- More balanced, private sector in telecoms, power, petchems
- Stock market major channel for wealth creation
- Enlarged gov't institutional base, especially regulatory, to manage growth
- Qualitative upgrade

## Comparing Booms--Security

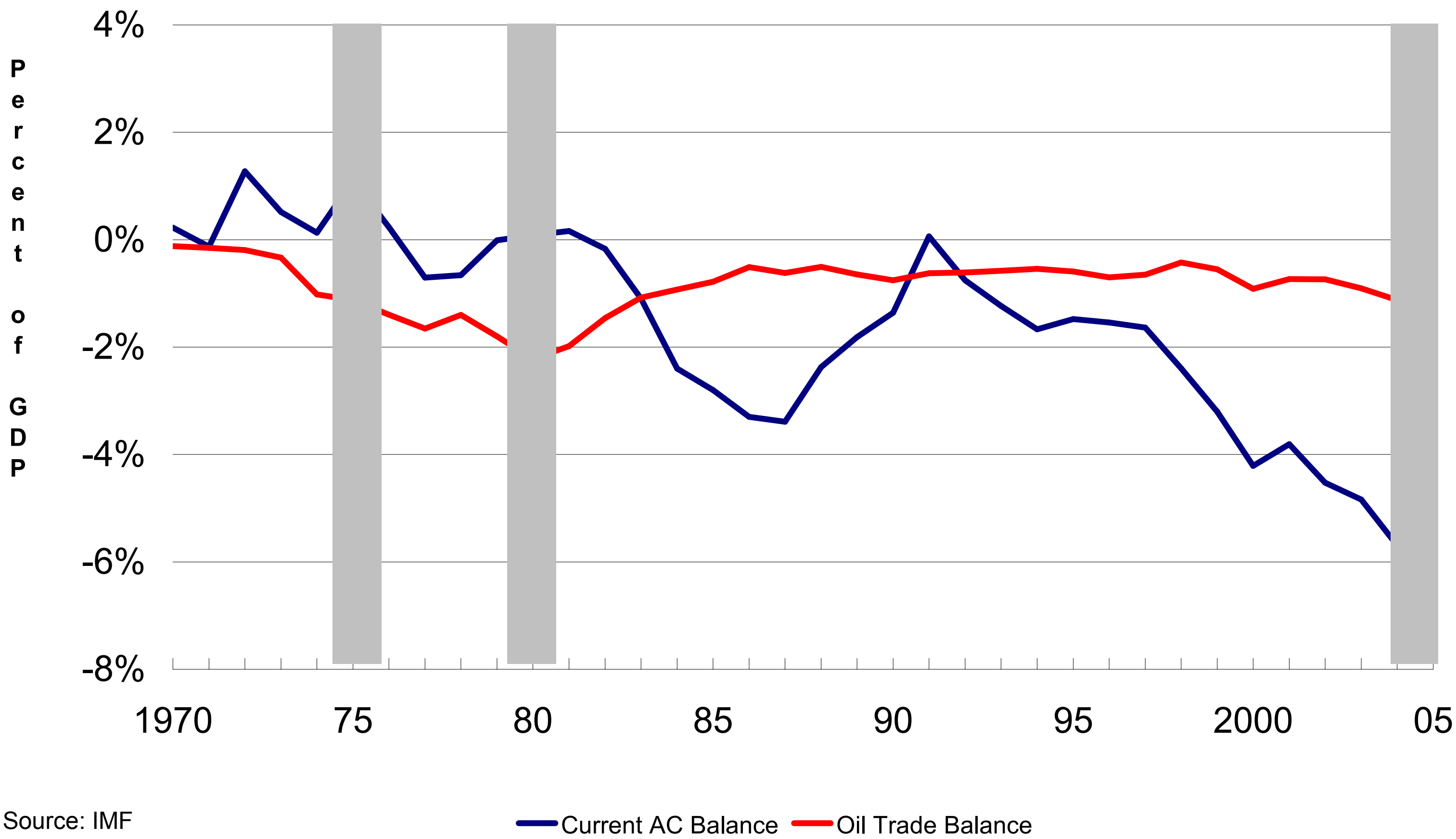


Reminder of regional security 1976-1982:

- Iranian revolution (1978-1979)
- Soviet invasion of Afghanistan (1979)
- Extremist takeover of Grand Mosque in Mecca (1979)
- Iran-Iraq War (begins 1980)
- Lebanon Civil War (begins about 1976)
- Israeli invasion of Lebanon (1982)

# Oil and Global Trade Balances

Current Account Balance--United States




Source: IMF

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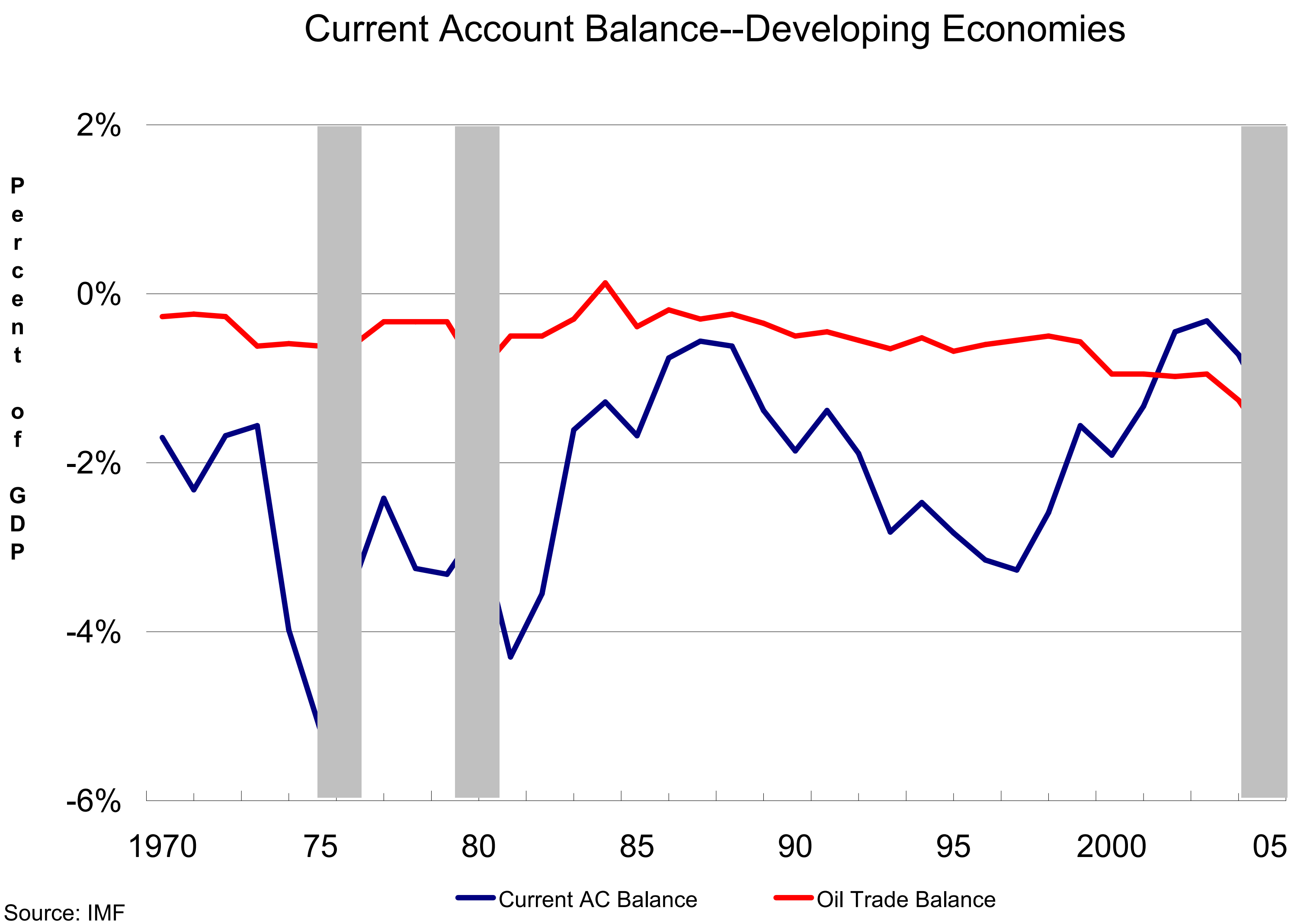
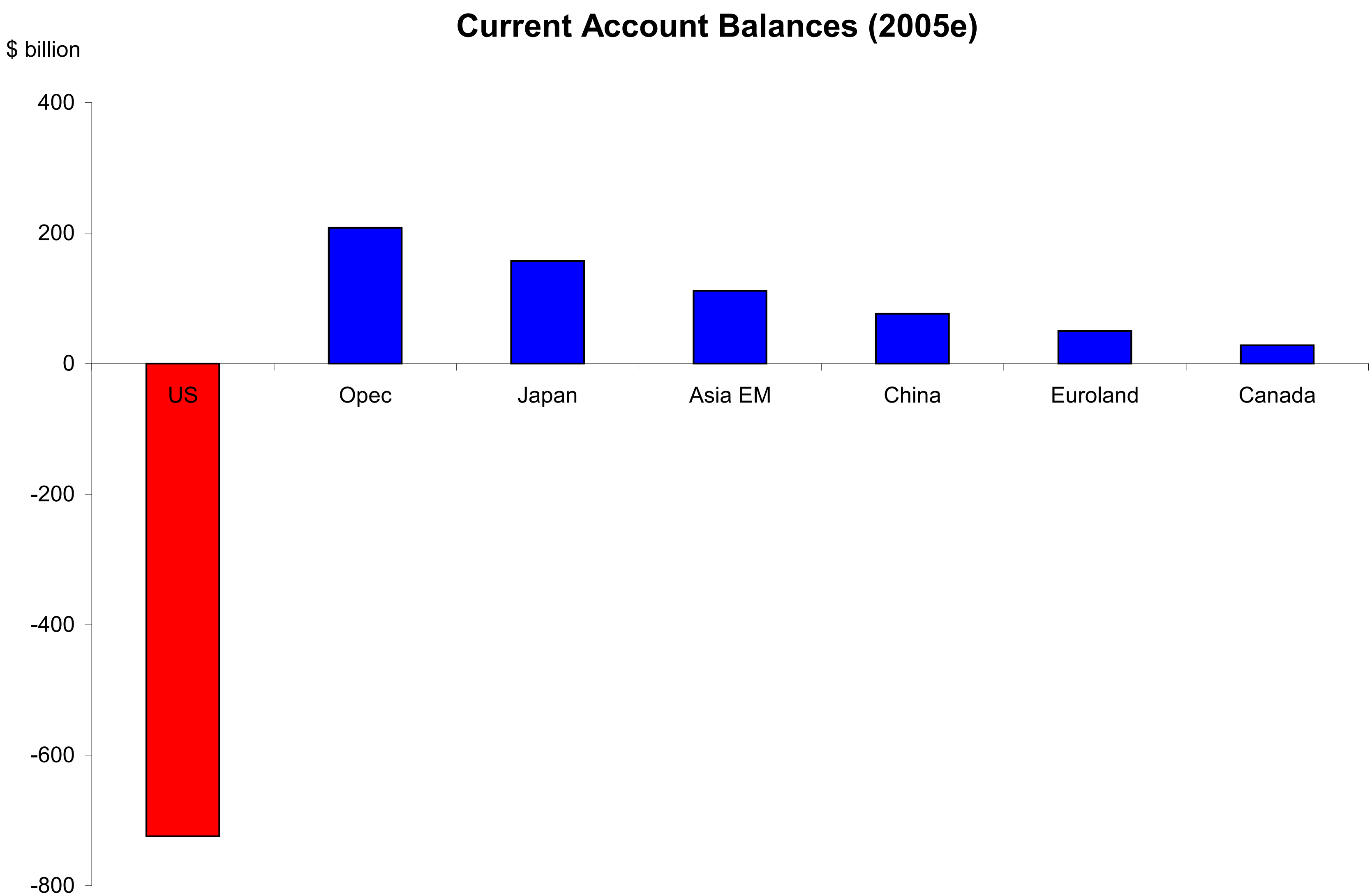
# Oil and Global Trade Balances




Source: IMF

# Global Current Account Balances






Source: IMF

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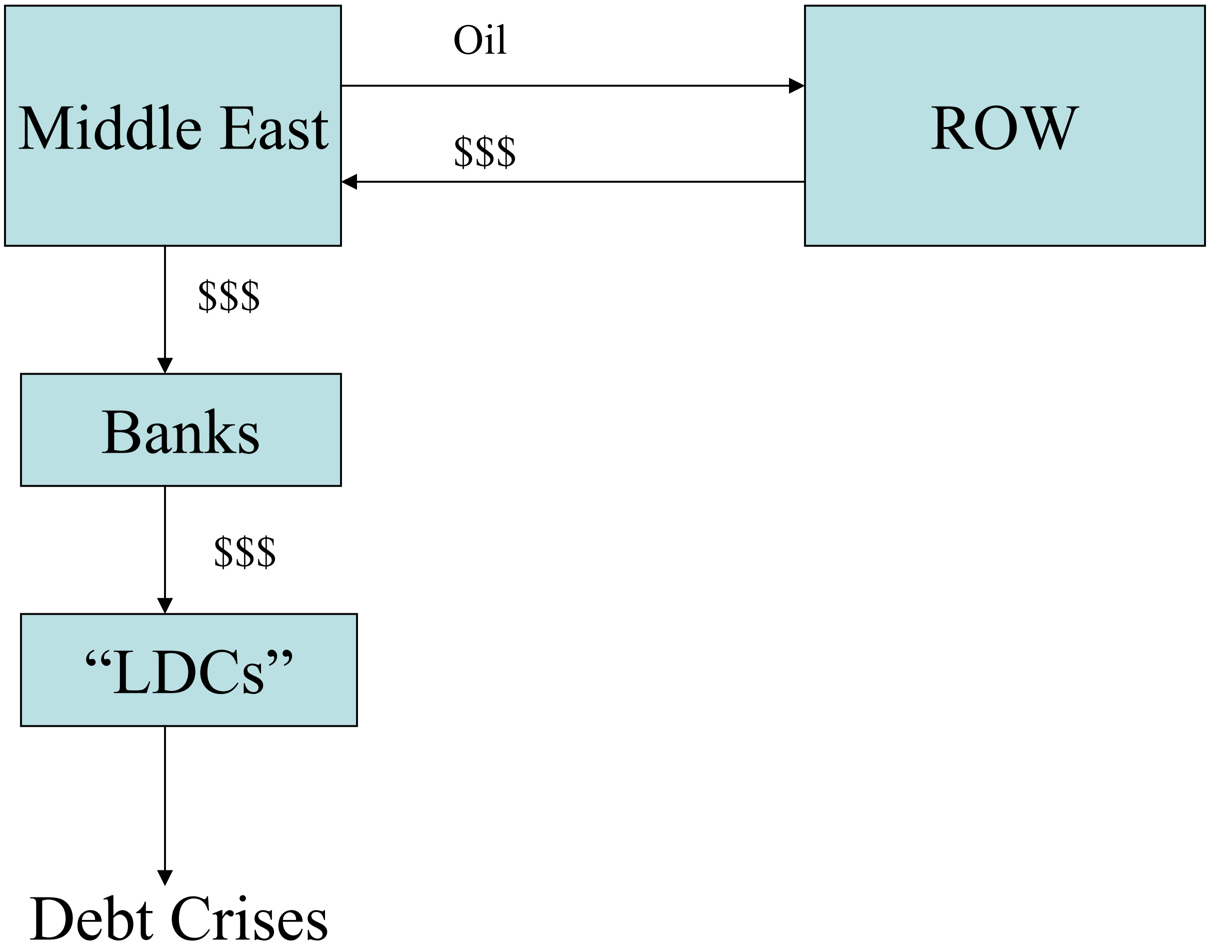
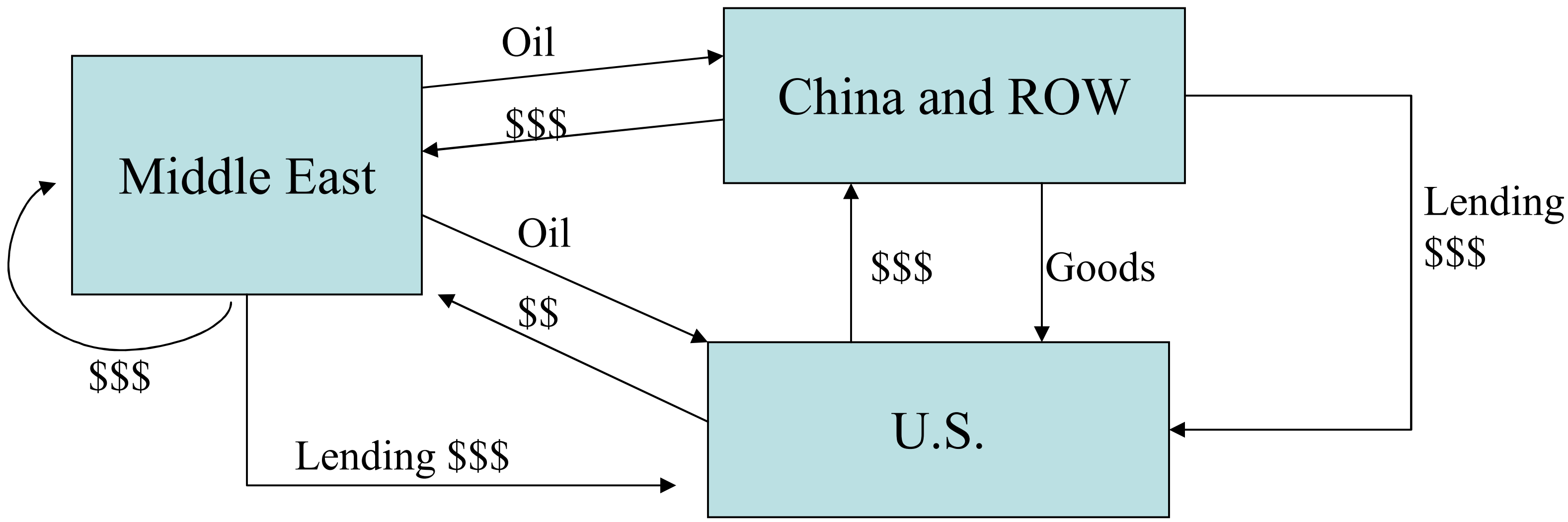
# Comparing Booms: Petrodollar Flows Then



# Comparing Booms: Petrodollar Flows Now




- US running large c/a deficit, while rest of world runs c/a surpluses
- Emerging market oil deficits offset by exports to US
- World central banks lending to the US by buying US Treasuries

# Data Issues—What's Wrong With This Picture?



**Foreign Holders of Treasury Securities**
**($ billion)**

| | Mar 2006 |
|---|---|
| Japan | 640.1 |
| China | 321.4 |
| UK | 179.5 |
| Oil Exporters | 98.0 |
| Korea | 72.4 |
| Taiwan | 68.9 |
| Carib Banking Centers | 61.7 |
| Hong Kong | 46.6 |
| Germany | 46.5 |
| Mexico | 40.1 |
| Luxembourg | 36.8 |
| France | 34.9 |
| Canada | 34.7 |
| Singapore | 33.1 |
| Switzerland | 32.0 |
| Brazil | 31.4 |
| Turkey | 21.0 |
| Ireland | 19.6 |
| Sweden | 17.9 |
| Thailand | 17.5 |
| Belgium | 17.1 |
| Netherlands | 15.3 |
| Italy | 13.7 |
| Israel | 12.3 |
| Poland | 12.2 |
| India | 11.2 |
| All Other | 151.3 |
| Total | 2087.2 |

Source: US Treasury

SAMA "Investment in Foreign Securities"
March 2006: $166 billion

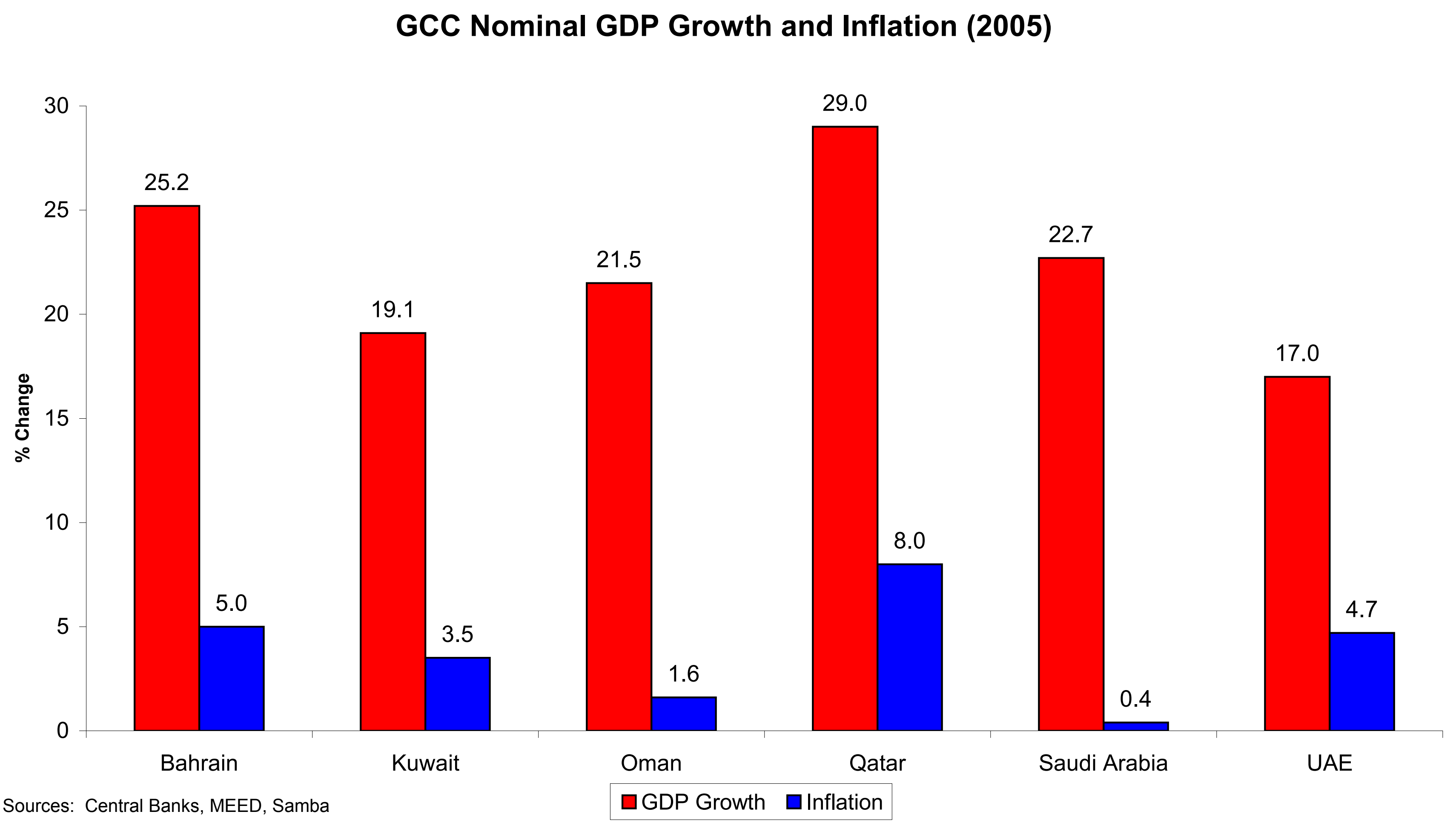
(Source: SAMA)

## What a Boom Looks Like



- Government budget surpluses: 50 percent of budget, 15 percent of GDP
- Cash at Central Bank: 60 percent of GDP, enough to fuel 20 percent spending growth for many years
- Economic growth: 23 percent
- No inflation
- Trade surplus: 30 percent of GDP
- No end in sight

# The GCC's High Growth




Sources: Central Banks, MEED, Samba

# Aramco Spending



**Aramco Expenditures 2006-2010**
**($ billion)**

| | |
|---|---|
| Projects | 46 |
| Material | 20 |
| Services | 23 |
| Manifa/Shaybah II* | 11 |
| Petro-Rabigh | 10 |
| Gas Initiative | 11 |
| Export Refineries | 12 |
| **Total** | **133** |

* In proposal phase

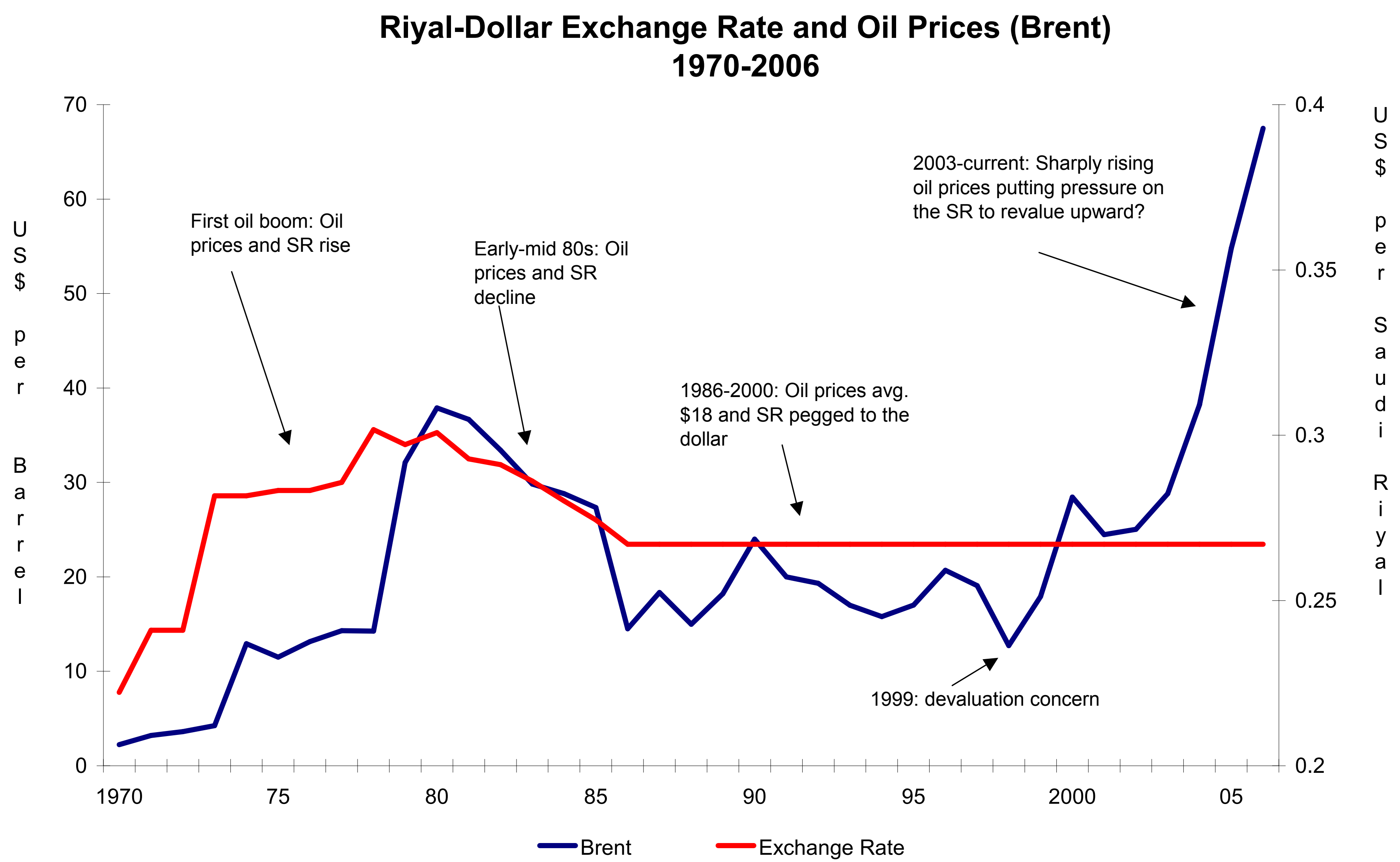
Source: Saudi Aramco, May 2006

# 2006 Megaproject News Flow



- King Abdullah Economic City announced ($26 billion)
- Petro-Rabigh financing complete ($10 billion project)
- Total-Aramco joint venture refinery ($6 billion)
- ConocoPhilips-Aramco joint venture refinery ($6 billion)
- Aramco + partners Ra's Tanura petchem complex ($8 billion)

# Exchange Rates and Oil Prices



# Summary



- Hard to envision magnitude of capital flows to the Middle East with oil > $50
- Current oil boom very different from past
- For global imbalances, US is the major borrower this time (more sustainable?), developing countries were last time (led to debt crises)
- Oil boom = economic boom for the region