

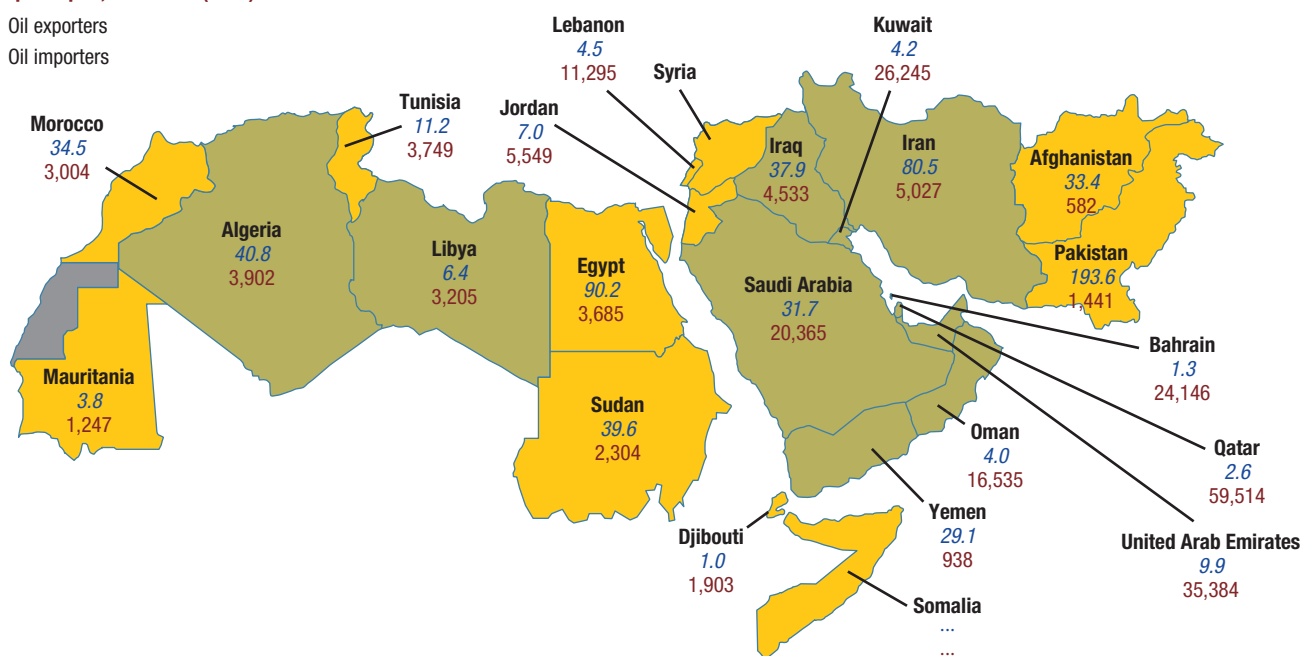
Middle East, North Africa, Afghanistan, and Pakistan

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Population, millions (2016)

GDP per capita, US dollars (2016)

- Oil exporters
- Oil importers



Sources: IMF Regional Economic Outlook database; and Microsoft Map Land.

Note: The country names and borders on this map do not necessarily reflect the IMF's official position. The gray area on the map denotes disputed territory.

MENAP Region Highlights

Despite the strengthening global recovery, MENAP's economic outlook remains relatively subdued owing to the adjustment to low oil prices and regional conflicts. For MENAP oil-exporting countries, spillovers from the low oil price environment and fiscal adjustment continue to weigh on non-oil growth, while overall growth is also held down by the Organization of the Petroleum Exporting Countries (OPEC)-led agreement to reduce oil production. For oil importers, growth is projected to increase, supported by the strengthening domestic demand and a cyclical recovery of the global economy. However, at 2.6 percent in 2017—unchanged relative to the May 2017 *Regional Economic Outlook: Middle East and Central Asia Update*—MENAP growth will be about half of the 2016 outturn, largely because of developments among oil exporters. Growth is anticipated to accelerate gradually over the medium term in most MENAP economies, but in many cases, it will remain below what is needed to effectively tackle the unemployment challenges facing the region. Structural reforms need to be accelerated to take advantage of the window of opportunity provided by the strengthening global economy and to secure higher, more inclusive, and resilient growth.

Oil Exporters: Need to Push ahead with Fiscal Consolidation and Diversification

Oil prices have remained soft, despite the extension of the production cuts led by OPEC. Oil exporters are continuing to adjust to these low oil prices, which have dampened growth and contributed to large fiscal and external deficits. Overall growth in the Gulf Cooperation Council (GCC) region is expected to bottom out in 2017 at 0.5 percent, as the OPEC-led deal reduces oil output. In contrast, non-oil growth is expected to

recover to about 2.6 percent in 2017 and 2.4 percent in 2018 as fiscal consolidation generally slows. Both oil and non-oil growth for GCC countries have been revised down since the May 2017 *Regional Economic Outlook: Middle East and Central Asia Update*. Algeria's growth is expected to slow to 1.5 percent in 2017 and bottom out at 0.8 percent in 2018, as a consequence of envisaged spending cuts, before recovering over the medium term. In Iran, growth is projected to drop to about 3.5 percent this year, as the post-sanctions boost to oil output wears off. The outlook for Iraq, Libya, and Yemen continues to be dominated by security conditions and oil-producing capacity.

The reality of lower oil prices has made it more urgent for oil exporters to move away from a focus on redistributing oil receipts through public sector spending and energy subsidies. To this end, MENAP oil exporters have outlined ambitious diversification strategies, but medium-term growth prospects remain below historical averages amid ongoing fiscal consolidation. These subdued growth prospects further highlight the need to speed up implementation of structural reforms.

Oil exporters should continue pursuing deficit-reduction plans to maintain fiscal sustainability and, where relevant, to support exchange rate pegs. Lower oil prices have contributed to large fiscal deficits across MENAP oil exporters. Deficits jumped from 1.1 percent of GDP in 2014 to 10.6 percent of GDP in 2016, but are expected to ease to 5.2 percent of GDP this year on the back of a modest recovery in oil prices and significant deficit reduction efforts. Nevertheless progress is uneven across countries. Some countries will need to identify additional fiscal consolidation measures, while protecting social and growth-oriented expenditures. All countries would benefit from further improving their fiscal institutions and frameworks.

Growth risks for MENAP oil exporters remain tilted to the downside. Considerable uncertainty surrounds the oil price outlook, but, on balance, risks from oil price volatility appear tilted more to the downside. Downside risks from regional conflicts and geopolitical developments also remain. Other, more global, risks could also affect the region including faster-than-expected normalization of monetary policy in the United States, and the pursuit of inward-looking policies by advanced economies. In contrast, global upside risks—including a stronger and more durable global recovery—could contribute to higher growth in the region.

Oil Importers: Securing Resilience and Inclusive Growth

Economic activity in MENAP oil importers is projected to expand by 4.3 percent in 2017, well above the 3.6 percent outturn for 2016. This projected expansion—which is mildly stronger than the 4 percent growth forecast in the May 2017 *Regional Economic Outlook: Middle East and Central Asia Update*—is expected to be broad-based, with growth forecast to accelerate in most oil importers, supported by domestic demand and exports. In the medium term, growth in MENAP oil importers is projected to continue improving gradually, with growth reaching 4.4 percent in 2018 and averaging 5.3 percent during 2019–22. However, this pace of growth will be insufficient to generate enough jobs to absorb those who are currently unemployed, as well as the millions of job seekers who will enter the labor market over the period.

The average fiscal deficit in MENAP oil-importing countries is expected to narrow slightly from 6.8 percent of GDP in 2016 to 6.6 percent in 2017, and further to 5.6 percent in 2018.

Nevertheless, significant vulnerabilities persist given the legacies of weak domestic revenue mobilization and high current expenditures (subsidies and wages) that, for most countries, have pushed public debt to more than 50 percent of GDP. This trend has been exacerbated by the impact of valuation changes owing to currency depreciation, rising interest payments, and lackluster growth. Sustained fiscal consolidation and reforms are required to address debt vulnerabilities. Debt levels are expected to fall by 2022 in most countries given anticipated consolidation, which should include carefully targeting current expenditures to protect social spending and improving the efficiency of public investment to mitigate the contractionary effect on growth.

Despite the anticipated pickup in growth, bold structural reforms should be accelerated to enhance private sector activity and foster a more dynamic, competitive, and inclusive economy. Improving the business environment, including by improving the quality of infrastructure, will be critical. The recently established Compact with Africa presents an opportunity to address these impediments. Labor market and education reforms, improving productivity, and enhancing access to finance will also help.

The balance of risks remains tilted to the downside. These risks include regional conflicts and security risks, the risk of social tension and reform fatigue, and the ongoing vulnerability of agricultural activity to weather and price developments. Risks to the global environment that are also relevant include the risk of more rapid tightening of global financial conditions and the pursuit of inward-looking policies by advanced economies. On the upside, a stronger-than-expected pickup in activity in the euro area and other trading partners would lift regional growth.

MENAP Region: Selected Economic Indicators, 2000–18
(Percent of GDP, unless otherwise indicated)

	Average 2000–13	2014	2015	2016	Projections	
					2017	2018
MENAP¹						
Real GDP (annual growth)	4.9	2.8	2.7	5.0	2.6	3.5
Current Account Balance	8.9	5.5	-3.7	-4.1	-1.9	-1.6
Overall Fiscal Balance	2.4	-3.1	-8.6	-9.3	-5.7	-4.6
Inflation (year average; percent)	6.9	7.0	5.8	5.7	7.9	6.9
MENAP Oil Exporters						
Real GDP (annual growth)	5.1	2.6	2.1	5.6	1.7	3.0
<i>of which non-oil growth</i>	6.9	3.9	0.6	1.1	2.6	2.5
Current Account Balance	12.9	8.8	-3.5	-3.6	-0.4	-0.2
Overall Fiscal Balance	6.2	-1.1	-9.3	-10.6	-5.2	-4.1
Inflation (year average; percent)	7.5	5.8	5.4	4.7	4.4	6.1
Of which: Gulf Cooperation Council (GCC)						
Real GDP (annual growth)	5.0	3.3	3.8	2.2	0.5	2.2
<i>of which non-oil growth</i>	7.0	5.4	3.8	1.8	2.6	2.4
Current Account Balance	16.6	14.4	-2.4	-3.4	0.2	0.0
Overall Fiscal Balance	10.0	2.1	-9.2	-11.9	-6.3	-5.0
Inflation (year average; percent)	2.8	2.6	2.5	2.9	0.8	4.2
Of which: Non-GCC oil exporters						
Real GDP (annual growth)	5.2	1.7	0.1	9.5	3.1	3.8
<i>of which non-oil growth</i>	6.7	2.0	-3.4	0.3	2.6	2.6
Current Account Balance	7.5	-1.0	-5.3	-3.9	-1.6	-0.6
Overall Fiscal Balance	2.3	-4.8	-9.3	-9.1	-4.1	-3.2
Inflation (year average; percent)	13.5	9.6	8.8	6.7	8.3	8.3
MENAP Oil Importers¹						
Real GDP (annual growth)	4.5	3.2	3.9	3.6	4.3	4.4
Current Account Balance	-2.4	-4.2	-4.4	-5.3	-5.3	-4.8
Overall Fiscal Balance	-5.5	-7.3	-7.3	-6.8	-6.6	-5.6
Inflation (year average; percent)	6.0	9.4	6.7	7.7	15.0	8.3
MENA¹						
Real GDP (annual growth)	4.9	2.6	2.6	5.1	2.2	3.2
Current Account Balance	9.6	6.0	-4.0	-4.4	-1.7	-1.3
Overall Fiscal Balance	3.2	-2.9	-9.1	-10.0	-5.7	-4.5
Inflation (year average; percent)	6.8	6.8	6.0	6.0	8.4	7.1
Arab World						
Real GDP (annual growth)	5.3	2.5	3.4	3.3	2.0	3.1
Current Account Balance	10.6	6.4	-5.0	-5.9	-2.8	-2.3
Overall Fiscal Balance	3.6	-3.3	-10.7	-11.8	-6.6	-5.1
Inflation (year average; percent)	4.1	4.8	4.7	5.3	7.8	6.4

Sources: National authorities; and IMF staff calculations and projections.

¹2011–18 data exclude Syrian Arab Republic.

Note: Data refer to the fiscal year for the following countries: Afghanistan (March 21/March 20) until 2011, and December 21/December 20 thereafter, Iran (March 21/March 20), and Egypt and Pakistan (July/June). MENAP oil exporters: Algeria, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, the United Arab Emirates, and Yemen. GCC countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Non-GCC oil exporters: Algeria, Iran, Iraq, Libya, and Yemen. MENAP oil importers: Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Somalia, Sudan, Syria, and Tunisia. Arab World: Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen.