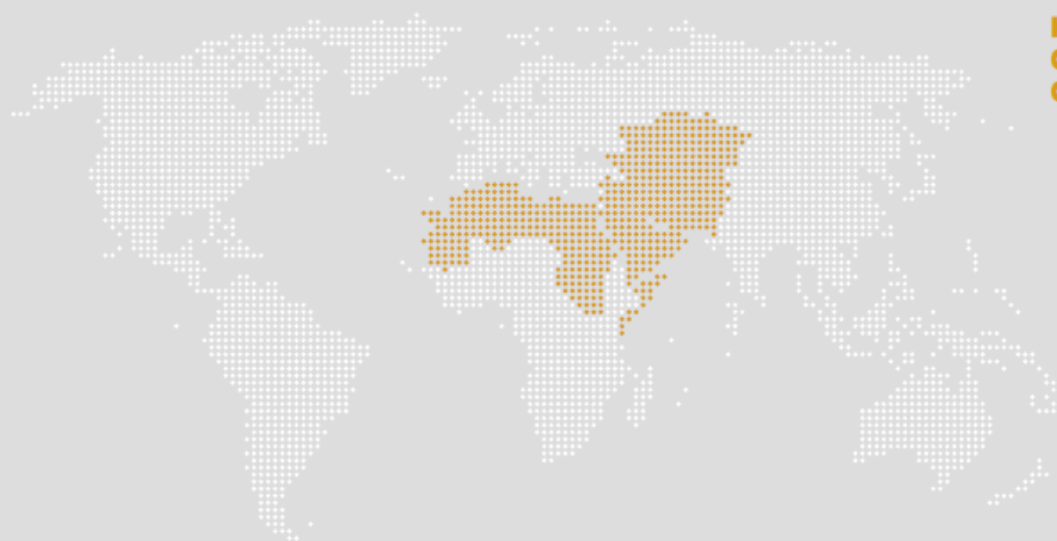


World Economic and Financial Surveys

Regional Economic Outlook

Middle East and Central Asia



OCT 14

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Middle East
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Assumptions and Conventions

A number of assumptions have been adopted for the projections presented in the *Regional Economic Outlook: Middle East and Central Asia*. It has been assumed that established policies of national authorities will be maintained, that the price of oil¹ will average US\$102.7 a barrel in 2014 and US\$99.4 in 2015, and that the six-month London interbank offered rate on U.S.-dollar deposits will average 0.4 percent in 2014 and 0.7 percent in 2015. These are, of course, working hypotheses rather than forecasts, and the uncertainties surrounding them add to the margin of error that would in any event be involved in the projections. The 2014 and 2015 data in the figures and tables are projections. These projections are based on statistical information available through early September 2014.

The following conventions are used in this publication:

- In tables, ellipsis points (. . .) indicate “not available,” and 0 or 0.0 indicates “zero” or “negligible.” Minor discrepancies between sums of constituent figures and totals are due to rounding.
- An en dash (–) between years or months (for example, 2011–12 or January–June) indicates the years or months covered, including the beginning and ending years or months; a slash or virgule (/) between years or months (for example, 2011/12) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY2012).
- “Billion” means a thousand million; “trillion” means a thousand billion.
- “Basis points (bps)” refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to ¼ of 1 percentage point).

As used in this publication, the term “country” does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.

The boundaries, colors, denominations, and any other information shown on the maps do not imply, on the part of the International Monetary Fund, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.

¹ Simple average of prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil.

Country Groupings

The October 2014 *Regional Economic Outlook: Middle East and Central Asia* (REO), covering countries in the Middle East and Central Asia Department (MCD) of the International Monetary Fund (IMF), provides a broad overview of recent economic developments in 2014 and prospects and policy issues for 2015. To facilitate the analysis, the 31 MCD countries covered in this report are divided into two groups: (1) countries of the Middle East, North Africa, Afghanistan, and Pakistan (MENAP)—which are further divided into oil exporters and oil importers; and (2) countries of the Caucasus and Central Asia (CCA). The country acronyms used in some figures are included in parentheses.

MENAP oil exporters (MENAPOE) comprise Algeria (ALG), Bahrain (BHR), Iran (IRN), Iraq (IRQ), Kuwait (KWT), Libya (LBY), Oman (OMN), Qatar (QAT), Saudi Arabia (SAU), the United Arab Emirates (UAE), and Yemen (YMN).

MENAP oil importers¹ (MENAPOI) comprise Afghanistan (AFG), Djibouti (DJI), Egypt (EGY), Jordan (JOR), Lebanon (LBN), Mauritania (MRT), Morocco (MAR), Pakistan (PAK), Somalia (SOM), Sudan (SDN), Syria (SYR), and Tunisia (TUN).

MENA comprises Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, Mauritania, Morocco, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, the United Arab Emirates, and Yemen.

MENA oil importers comprise Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Somalia, Sudan, Syria, and Tunisia.

The **Gulf Cooperation Council (GCC)** comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

The **non-GCC** oil-exporting countries are Algeria, Iran, Iraq, Libya, and Yemen.

The **Maghreb** comprises Algeria, Libya, Mauritania, Morocco, and Tunisia.

The **Mashreq** comprises Egypt, Jordan, Lebanon, and Syria.

The **Arab Countries in Transition (ACTs)** are Egypt, Jordan, Libya, Morocco, Tunisia, and Yemen.

The **Arab World** comprises Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, the United Arab Emirates, and Yemen.

CCA countries comprise Armenia (ARM), Azerbaijan (AZE), Georgia (GEO), Kazakhstan (KAZ), the Kyrgyz Republic (KGZ), Tajikistan (TJK), Turkmenistan (TKM), and Uzbekistan (UZB).

CCA oil exporters comprise Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan.

CCA oil importers comprise Armenia, Georgia, the Kyrgyz Republic, and Tajikistan.

The **Commonwealth of Independent States (CIS)** comprises Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Mongolia, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Georgia, Mongolia, and Turkmenistan, though not members of the CIS, are included in this group for reasons of geography and similarities in economic structure.

¹ Because of the uncertain economic situation, Syria is excluded from the projection years of REO aggregates.

World Economic Outlook¹

Despite setbacks, an uneven global economic recovery continues. Largely due to weaker-than-expected global activity in the first half of 2014, the growth forecast for the world economy has been revised downward to 3.3 percent this year, 0.4 percentage point lower than in the April 2014 *World Economic Outlook*. Global growth is projected to rebound in the second half of 2014 and into 2015 driven by strengthening growth in both advanced and emerging market economies. Accommodative monetary policy, favorable financial conditions, and a reduced pace of fiscal consolidation provide a favorable backdrop for stronger growth in the United States and the euro area. Emerging market and developing economies will likely profit from a recovery in external demand associated with faster growth in advanced economies as well as from strengthening domestic demand, in part linked to new measures to support activity (notably in China). By contrast, low growth in Russia, a country with important economic links, particularly for the Caucasus and Central Asia (CCA) region, reflects the impact of geopolitical tensions on foreign investment, domestic production, and confidence.

Overview of the *World Economic Outlook* Projections (Annual percent change)

	2013	Projections	
		2014	2015
World output	3.3	3.3	3.8
Advanced economies	1.4	1.8	2.3
Of which: United States	2.2	2.2	3.1
European Union	0.2	1.4	1.8
Emerging and developing economies	4.7	4.4	5.0
Of which: MENAP	2.5	2.7	3.9
CCA	6.6	5.5	5.6
Commonwealth of Independent States	2.2	0.8	1.6
Of which: Russia	1.3	0.2	0.5
World trade volume (goods and services)	3.0	3.8	5.0
Commodity prices			
Oil ¹	-0.9	-1.3	-3.3
Nonfuel ²	-1.2	-3.0	-4.1

Sources: IMF, *World Economic Outlook* (October 2014) and *Regional Economic Outlook: Middle East and Central Asia* (October 2014).

¹Simple average of prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was \$104.07 in 2013; the assumed price based on future markets is \$106.08 in 2014 and \$102.82 in 2015.

²Average (measured in U.S. dollars) based on world commodity export weights.

Downside risks have increased since the spring. Increased geopolitical tensions, linked to the Russia-Ukraine situation and continued strife in some countries in the Middle East, could prove persistent, hampering recovery in the countries directly involved and taking a toll on confidence elsewhere. And a worsening of such tensions could lead to sharply higher oil prices, asset price declines, and further economic distress. Financial market risks include a reversal of the recent risk spreads and volatility compression triggered by a larger-than-expected increase in U.S. long-term rates—which would also tighten financial conditions for emerging markets. Secular stagnation and low potential growth in advanced economies remain important medium-term risks. For emerging markets, despite downward revisions to forecasts, the risk remains that the projected increase in growth next year will fail to materialize (at least in full) and that potential growth is lower than currently projected. And risks of a hard landing in China in the medium term, owing to excess capacity and the credit overhang, remain a concern.

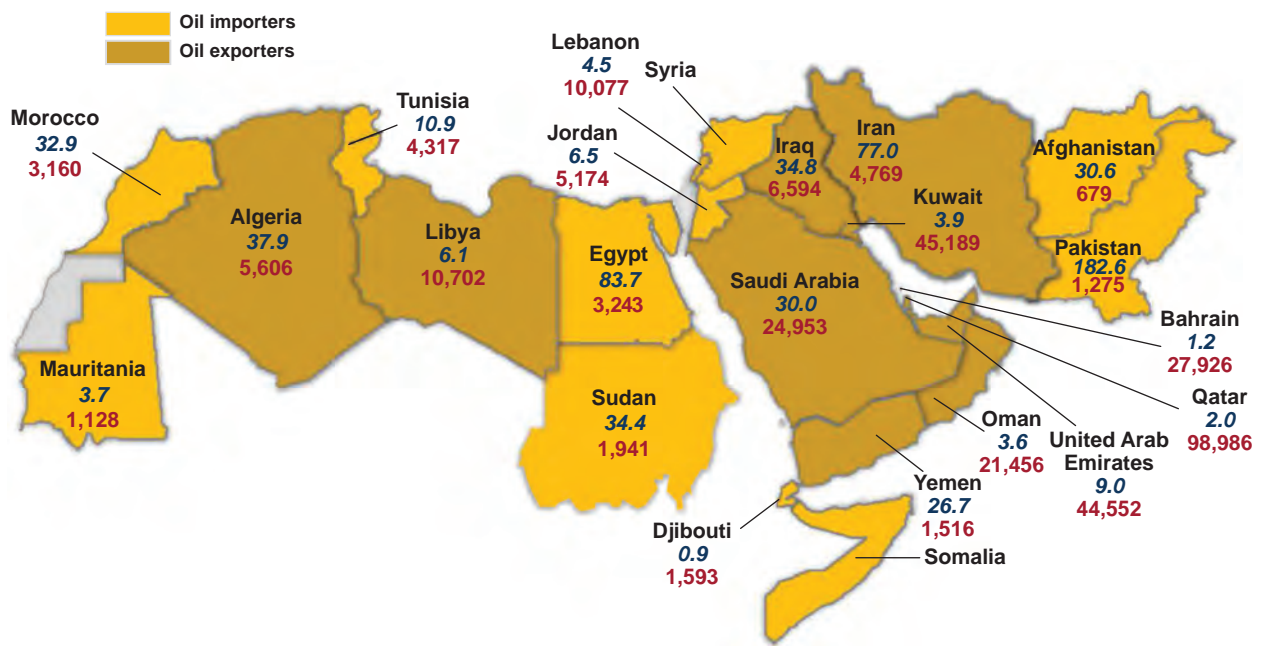
Given the fragility of the global recovery and concerns about declining potential growth, policies need to focus on raising actual and potential growth. In the advanced economies, avoiding premature monetary policy normalization remains a priority, as is fiscal adjustment, attuned in pace and composition to supporting both the recovery and long-term growth. And structural reforms to raise potential output are of the essence. In emerging markets, the scope for macroeconomic policies to support growth, if needed, varies across countries and regions, but space is limited in countries with external vulnerabilities. And there is a general, urgent need for country-specific structural reforms to strengthen growth potential or make growth more sustainable.

¹ See IMF, *World Economic Outlook*, *Global Financial Stability Report*, and *Fiscal Monitor* (all October 2014) for more information.

Middle East, North Africa, Afghanistan, and Pakistan

Population, millions (2013)

GDP per capita, U.S. dollars (2013)



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.

MENAP Region Highlights

Economic developments in the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) continue to reflect the diversity of conditions prevailing across the region. Most high-income oil exporters, primarily in the GCC, continue to record steady growth and solid economic and financial fundamentals, albeit with medium-term challenges that need to be addressed. In contrast, other countries—Iraq, Libya, and Syria—are mired in conflicts with not only humanitarian but also economic consequences. And yet other countries, mostly oil importers, are making continued but uneven progress in advancing their economic agendas, often in tandem with political transitions and amidst difficult social conditions. In most of these countries, without extensive economic and structural reforms, economic prospects for the medium term remain insufficient to reduce high unemployment and improve living standards.

Oil Exporters: Different Cyclical Positions, Weakening Fiscal Balances

In the MENAP oil exporters as a group, growth is expected to edge up to 2½ percent in 2014 (a downward revision of ¾ of a percentage point from the May 2014 REO Update) and strengthen further next year. However, risks are tilted to the downside, especially for 2015, and economic performance varies considerably across countries. Conflicts and security problems continue to disrupt economic activity in Iraq, Libya, and Yemen, although some recovery in oil production in these countries is expected to improve the outlook for the next year, assuming that the security situation stabilizes. By contrast, growth remains steady in the GCC countries on the strength of public spending on infrastructure and private sector credit expansion in many countries. And Iran's economy is moving from contraction to modest growth.

Geopolitical risks have increased, yet oil price risks remain balanced. Further deterioration in security conditions in Iraq, Libya, or Yemen could deepen disruptions in oil supply in these countries and derail the projected recovery in oil production next year. If the rapprochement between Iran and the P5+1 (the permanent UN Security Council members and Germany) were to break down, intensified sanctions could further reduce Iran's oil exports. However, Saudi Arabia maintains significant spare capacity and could at least partially compensate for any unexpected supply shortages elsewhere. By contrast, a permanent agreement between Iran and the P5+1, and an improvement in Iraq's and Libya's security situation, could raise oil supply from these countries. Higher-than-expected oil supply from other regions (for example, the United States, which continues to surprise on the upside) or lower global oil demand, owing to weaker global economic growth, could also ease oil markets. Oil prices, as well as regional security conditions, are also important sources of risk for activity in the non-oil economy.

Fiscal positions in most oil exporters are weakening. Rising government spending amid broadly stable oil prices is expected to reduce the fiscal surplus to 2 percent this year and 1¼ percent in 2015. In most countries, fiscal balances are insufficient to set aside an equitable amount of oil wealth for future generations, and imply a significant exposure to oil price risks. Most oil exporters thus need to strengthen their fiscal positions. GCC countries can use the current period of economic strength to save more of their oil windfall. Many other countries, hit by oil revenue and other shocks, face the immediate task of supporting demand with limited resources, but need to rebuild buffers once cyclical conditions allow.

Most oil exporters also need to adapt their economic model for more sustained, inclusive, and diversified growth. The economic model has been dependent on the growth of government spending supported by increases in oil prices. Transitioning to a more diversified, private sector-driven model requires significant reform. In the GCC countries, the business environment is generally favorable and infrastructure gaps are

small. In these countries, reform priorities center on improving the quality of education and its relevance for private sector needs; reducing distortions that lead to reliance on foreign labor, thereby increasing private sector job opportunities for nationals; and encouraging efficient production of tradable goods and services rather than activity in nontradable sectors with low productivity growth. In the non-GCC countries, improving the political and business environment, addressing infrastructure bottlenecks, and enhancing access to finance are important prerequisites for raising investment, productivity, and sustained growth.

Oil Importers: Slow Recovery and Job Creation

Economic activity in the MENAP oil-importing countries has remained lackluster this year at about 3 percent, but growth is expected to pick up to 4 percent in 2015 (broadly unchanged from the May 2014 REO Update). Deep-rooted sociopolitical tensions, as well as spillovers from intensifying regional conflicts, have been holding back growth. A gradual improvement in confidence is expected to support domestic demand as political uncertainty eases. Exports, tourism, and foreign direct investment are also projected to edge upward, helped by recovery in Europe and steady growth in the GCC. These gradual improvements are unlikely to reduce high unemployment.

Risks to this outlook are to the downside. Setbacks in political transitions, intensified social and security tensions, and spillovers from regional conflicts, as well as lower-than-expected growth in key trading partners, could undermine the recovery.

Countries are starting to rein in their high budget deficits, which will allow them to gradually rebuild buffers and strengthen their resilience to shocks. In many countries, savings accrue from gradual reforms of inefficient generalized subsidies (including Egypt, Jordan, Mauritania, Morocco, Pakistan, Sudan, and Tunisia), with some of the savings also being channeled into targeted social protection for the poor, and into higher spending on infrastructure, health care, and education. Nonetheless, the oil importers' debt-to-GDP ratio is still rising, and gross external financing needs are expected to reach US\$100 billion next year.

With growth projected to improve next year, a continued gradual reduction in budget deficits can help further improve confidence and economic resilience. The priority will need to be fiscal measures that minimize the drag on near-term economic growth, foster job creation, contain the negative impact on the poor, and reduce social inequities. In the context of fiscal consolidation amid still-wide output gaps, greater exchange rate flexibility, in some cases, would enhance growth and competitiveness.

Medium-term growth prospects in the MENAP oil importers have been weakening faster than in other regions of the world, and remain insufficient to make a dent in the region's persistently high unemployment, especially among the youth and women. Deep economic reforms are therefore needed to increase medium-term growth and create jobs. Structural rigidities, lack of openness to trade and competition, and institutional weaknesses underlie the current outlook for low medium-term growth. Bold yet credible national reform agendas are needed to address these obstacles. Improvements in the business environment, governance, and financial market development can support investment and productivity. Labor market reforms that facilitate hiring and skills-building can lead to more efficient labor allocation, higher compensation, and more rapid job creation. Deepening trade integration would help strengthen countries' participation in global value chains.

Support from the international community—scaled-up financing, enhanced trade access, policy advice, and capacity building—will be necessary to allow for more gradual and less painful macroeconomic adjustment and to support countries' medium-term reform agendas.

MENAP Region: Selected Economic Indicators, 2000–17

(Percent of GDP, unless otherwise indicated)

	Average 2000–10	2011	2012	2013	Projections			
					2014	2015	2016	2017
MENAP¹								
Real GDP (annual growth)	5.3	4.4	4.8	2.5	2.7	3.9	4.5	4.4
Current Account Balance	8.7	13.2	12.7	10.0	7.8	6.2	5.1	4.2
Overall Fiscal Balance	3.1	1.7	2.6	0.0	-1.0	-1.4	-1.6	-2.1
Inflation, p.a. (annual growth)	7.0	9.3	10.0	9.9	8.0	8.1	7.4	7.3
MENAP Oil Exporters								
Real GDP (annual growth)	5.5	5.3	5.7	2.2	2.5	3.9	4.5	4.4
Current Account Balance	12.7	18.4	18.4	14.8	11.6	9.8	8.5	7.4
Overall Fiscal Balance	7.2	5.7	7.6	4.4	2.0	1.2	0.7	0.0
Inflation, p.a. (annual growth)	7.2	8.8	10.3	10.2	7.0	7.5	7.2	7.2
Of Which: Gulf Cooperation Council								
Real GDP (annual growth)	5.4	8.1	5.8	4.1	4.4	4.5	4.5	4.5
Current Account Balance	14.8	23.8	24.6	20.9	17.9	15.9	14.0	12.3
Overall Fiscal Balance	11.2	11.7	14.2	10.9	7.9	5.3	3.9	2.5
Inflation, p.a. (annual growth)	2.9	3.0	2.4	2.8	2.8	3.1	3.4	3.6
MENAP Oil Importers								
Real GDP (annual growth)	5.0	2.5	2.9	3.0	3.1	3.9	4.3	4.5
Current Account Balance	-1.7	-3.5	-5.6	-4.5	-3.5	-4.4	-4.6	-4.5
Overall Fiscal Balance	-4.9	-7.1	-8.4	-9.5	-7.5	-6.9	-6.6	-6.4
Inflation, p.a. (annual growth)	6.6	10.3	9.4	9.1	9.9	9.6	7.9	7.5
MENA¹								
Real GDP (annual growth)	5.4	4.5	4.8	2.3	2.6	3.8	4.5	4.4
Current Account Balance	9.5	14.2	13.8	10.9	8.6	6.8	5.7	4.8
Overall Fiscal Balance	4.0	2.7	3.9	1.0	-0.6	-1.0	-1.4	-1.9
Inflation, p.a. (annual growth)	6.9	8.8	9.9	10.2	7.9	8.2	7.5	7.4
MENA Oil Importers								
Real GDP (annual growth)	5.1	1.8	2.0	2.6	2.6	3.7	4.2	4.4
Current Account Balance	-1.9	-5.1	-7.5	-6.2	-4.7	-5.9	-5.7	-5.5
Overall Fiscal Balance	-5.5	-7.4	-8.7	-10.5	-9.3	-8.5	-8.5	-8.3
Inflation, p.a. (annual growth)	6.2	8.6	8.6	10.1	10.8	10.6	8.6	8.3
Arab Countries in Transition (excluding Libya)								
Real GDP (annual growth)	4.9	1.0	2.5	2.7	2.5	3.8	4.2	4.3
Current Account Balance	-0.3	-5.0	-6.1	-4.8	-3.2	-4.5	-4.5	-4.4
Overall Fiscal Balance	-5.7	-8.2	-9.1	-11.3	-9.9	-8.9	-9.0	-8.7
Inflation, p.a. (annual growth)	6.6	8.4	6.1	7.8	8.3	10.1	8.8	8.7

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

Notes: 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), Qatar (April/March), 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.

MENAP oil importers: Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Sudan, Syria, and Tunisia.

MENA: MENAP excluding Afghanistan and Pakistan.

Arab countries in transition (excluding Libya): Egypt, Jordan, Morocco, Tunisia, and Yemen.

¹ 2011–17 data exclude Syrian Arab Republic.

منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان: مؤشرات اقتصادية مختارة، ٢٠١٧-٢٠٠٠
(% من إجمالي الناتج المحلي، ما لم يذكر خلاف ذلك)

توقعات				متوسط			
٢٠١٧	٢٠١٦	٢٠١٥	٢٠١٤	٢٠١٣	٢٠١٢	٢٠١١	٢٠١٠-٢٠٠٠
منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان^١							
٤,٤	٤,٥	٣,٩	٢,٧	٢,٥	٤,٨	٤,٤	٥,٣
إجمالي الناتج المحلي الحقيقي (النمو السنوي)							
٤,٢	٥,١	٦,٢	٧,٨	١٠,٠	١٢,٧	١٣,٢	٨,٧
رصيد الحساب الجاري							
٢,١-	١,٦-	١,٤-	١,٠-	٠,٠	٢,٦	١,٧	٣,١
رصيد المالية العامة الكلي							
٧,٣	٧,٤	٨,١	٨,٠	٩,٩	١٠,٠	٩,٣	٧,٠
التضخم، متوسط سنوي (النمو السنوي)							
البلدان المصدرة للنفط في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان							
٤,٤	٤,٥	٣,٩	٢,٥	٢,٢	٥,٧	٥,٣	٥,٥
إجمالي الناتج المحلي الحقيقي (النمو السنوي)							
٧,٤	٨,٥	٩,٨	١١,٦	١٤,٨	١٨,٤	١٨,٤	١٢,٧
رصيد الحساب الجاري							
٠,٠	٠,٧	١,٢	٢,٠	٤,٤	٧,٦	٥,٧	٧,٢
رصيد المالية العامة الكلي							
٧,٢	٧,٢	٧,٥	٧,٠	١٠,٢	١٠,٣	٨,٨	٧,٢
التضخم، متوسط سنوي (النمو السنوي)							
منها: دول مجلس التعاون الخليجي							
٤,٥	٤,٥	٤,٥	٤,٤	٤,١	٥,٨	٨,١	٥,٤
إجمالي الناتج المحلي الحقيقي (النمو السنوي)							
١٢,٣	١٤,٠	١٥,٩	١٧,٩	٢٠,٩	٢٤,٦	٢٣,٨	١٤,٨
رصيد الحساب الجاري							
٢,٥	٣,٩	٥,٣	٧,٩	١٠,٩	١٤,٢	١١,٧	١١,٢
رصيد المالية العامة الكلي							
٣,٦	٣,٤	٣,١	٢,٨	٢,٨	٢,٤	٣,٠	٢,٩
التضخم، متوسط سنوي (النمو السنوي)							
البلدان المستوردة للنفط في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان							
٤,٥	٤,٣	٣,٩	٣,١	٣,٠	٢,٩	٢,٥	٥,٠
إجمالي الناتج المحلي الحقيقي (النمو السنوي)							
٤,٥-	٤,٦-	٤,٤-	٣,٥-	٤,٥-	٥,٦-	٣,٥-	١,٧-
رصيد الحساب الجاري							
٦,٤-	٦,٦-	٦,٩-	٧,٥-	٩,٥-	٨,٤-	٧,١-	٤,٩-
رصيد المالية العامة الكلي							
٧,٥	٧,٩	٩,٦	٩,٩	٩,١	٩,٤	١٠,٣	٦,٦
التضخم، متوسط سنوي (النمو السنوي)							
منطقة الشرق الأوسط وشمال إفريقيا^١							
٤,٤	٤,٥	٣,٨	٢,٦	٢,٣	٤,٨	٤,٥	٥,٤
إجمالي الناتج المحلي الحقيقي (النمو السنوي)							
٤,٨	٥,٧	٦,٨	٨,٦	١٠,٩	١٣,٨	١٤,٢	٩,٥
رصيد الحساب الجاري							
١,٩-	١,٤-	١,٠-	٠,٦-	١,٠	٣,٩	٢,٧	٤,٠
رصيد المالية العامة الكلي							
٧,٤	٧,٥	٨,٢	٧,٩	١٠,٢	٩,٩	٨,٨	٦,٩
التضخم، متوسط سنوي (النمو السنوي)							
البلدان المستوردة للنفط في الشرق الأوسط وشمال إفريقيا							
٤,٤	٤,٢	٣,٧	٢,٦	٢,٦	٢,٠	١,٨	٥,١
إجمالي الناتج المحلي الحقيقي (النمو السنوي)							
٥,٥-	٥,٧-	٥,٩-	٤,٧-	٦,٢-	٧,٥-	٥,١-	١,٩-
رصيد الحساب الجاري							
٨,٣-	٨,٥-	٨,٥-	٩,٣-	١٠,٥-	٨,٧-	٧,٤-	٥,٥-
رصيد المالية العامة الكلي							
٨,٣	٨,٦	١٠,٦	١٠,٨	١٠,١	٨,٦	٨,٦	٦,٢
التضخم، متوسط سنوي (النمو السنوي)							
بلدان التحول العربي (باستثناء ليبيا)							
٤,٣	٤,٢	٣,٨	٢,٥	٢,٧	٢,٥	١,٠	٤,٩
إجمالي الناتج المحلي الحقيقي (النمو السنوي)							
٤,٤-	٤,٥-	٤,٥-	٣,٢-	٤,٨-	٦,١-	٥,٠-	٠,٣-
رصيد الحساب الجاري							
٨,٧-	٩,٠-	٨,٩-	٩,٩-	١١,٣-	٩,١-	٨,٢-	٥,٧-
رصيد المالية العامة الكلي							
٨,٧	٨,٨	١٠,١	٨,٣	٧,٨	٦,١	٨,٤	٦,٦
التضخم، متوسط سنوي (النمو السنوي)							

المصادر: السلطات الوطنية، وحسابات وتوقعات خبراء صندوق النقد الدولي.

^١ بيانات ٢٠١١-٢٠١٧ لا تتضمن الجمهورية العربية السورية.

ملحوظة: تشير البيانات إلى السنوات المالية لكل من البلدان التالية: أفغانستان (٢١ مارس/ ٢٠ مارس حتى عام ٢٠١١، ومن بعدها من ٢١ ديسمبر/ ٢٠ ديسمبر)، وإيران (٢١ مارس/ ٢٠ مارس)، وقطر (إبريل/مارس)، ومصر وباكستان (يوليو/يونيو).

البلدان المصدرة للنفط في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان تشمل: الجزائر والبحرين وإيران والعراق والكويت وليبيا وعمان وقطر والمملكة العربية السعودية والإمارات العربية المتحدة واليمن؛ والبلدان المستوردة للنفط في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان تشمل: أفغانستان وجيبوتي ومصر والأردن ولبنان وموريتانيا والمغرب وباكستان والسودان وسوريا وتونس. بلدان الشرق الأوسط وشمال إفريقيا (MENA): مجموعة البلدان التي تضم بلدان الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان (MENAP)، باستثناء أفغانستان وباكستان. بلدان التحول العربي (باستثناء ليبيا): مصر والأردن والمغرب وتونس واليمن.

للفقراء، وزيادة الإنفاق على البنية التحتية والرعاية الصحية والتعليم. ومع ذلك، لا يزال الارتفاع مستمرا في نسبة الدين إلى إجمالي الناتج المحلي في البلدان المستوردة للنفط، ومن المتوقع أن يصل إجمالي احتياجاتها من التمويل الخارجي ١٠٠ مليار دولار أمريكي في العام القادم.

ومع توقعات تحسن النمو في العام القادم، يمكن أن يساعد التخفيض التدريجي المستمر في عجز الميزانيات العامة على تحقيق مزيد من التحسن في مستوى الثقة وصلابة الاقتصاد. وينبغي إعطاء الأولوية لتدابير المالية العامة التي تحد من الأعباء المعوقة للنمو الاقتصادي على المدى القصير، وتدعم خلق فرص العمل، وتحتوي التأثير السلبى على الفقراء، وتحد من مظاهر التفاوت الاجتماعي. وفي سياق ضبط أوضاع المالية العامة وسط فجوات الناتج التي لا تزال كبيرة، يمكن أن تكون زيادة مرونة سعر الصرف إجراءً معززا للنمو والتنافسية في بعض الحالات.

ولا تزال توقعات النمو متوسطة الأجل في البلدان المستوردة للنفط في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان تواصل تراجعها بوتيرة أسرع من غيرها من المناطق حول العالم، ولا تزال غير كافية للتأثير على البطالة المرتفعة بشكل مزمن في المنطقة، وخاصة بين الشباب والنساء. ومن ثم ينبغي إجراء إصلاحات اقتصادية عميقة لزيادة النمو متوسط الأجل وخلق فرص العمل. وتستند التوقعات الحالية للنمو المنخفض على المدى المتوسط إلى الأوضاع الراهنة التي تشوبها أوجه الجمود الهيكلي، والافتقار إلى الانفتاح التجاري والمنافسة، وضعف المؤسسات. وتتطلب معالجة هذه العقبات وجود برامج وطنية للإصلاح تجمع بين الجراءة والمصداقية. ويمكن أن يكون تحسين مناخ الأعمال والحوكمة وتطوير الأسواق المالية عاملا داعما للاستثمار والإنتاجية. كذلك يمكن أن تؤدي إصلاحات سوق العمل التي تيسر توظيف العمالة وبناء المهارات إلى تعزيز الكفاءة في توزيع القوى العاملة وزيادة المكافآت وتسريع وتيرة خلق فرص العمل. ومن شأن تعميق التكامل التجاري أن يساعد على زيادة مشاركة البلدان في سلاسل القيمة المضافة العالمية.

وسيكون دعم المجتمع الدولي ضروريا - عن طريق زيادة التمويل، وإتاحة فرص أكبر للنفوذ إلى الأسواق التجارية، وتقديم المشورة بشأن السياسات، وبناء القدرات - للسماح بتعديل الاقتصاد الكلي على نحو أكثر تدرجا وأقل مشقة ودعم برامج الإصلاح متوسطة الأجل في البلدان المعنية.

وثمة ضعف متزايد في مراكز المالية العامة في معظم البلدان المصدرة للنفط. فمن المتوقع أن يؤدي تصاعد الإنفاق الحكومي في ظل أسعار النفط المستقرة بشكل عام إلى خفض فائض المالية العامة إلى نحو ٢% هذا العام و١,٢٥% في عام ٢٠١٥. وفي معظم البلدان، لا تتوافر في المالية العامة أرصدة كافية للحفاظ على قدر عادل من الثروة النفطية للأجيال القادمة، وهو ما يعني أن هناك انكشافا كبيرا لمخاطر أسعار النفط. ولذلك تحتاج معظم البلدان المصدرة للنفط إلى تعزيز مراكز ماليتها العامة. وتستطيع دول مجلس التعاون الخليجي الاستفادة من الفترة الحالية التي تتسم بقوة الاقتصاد لادخار قدر أكبر من إيراداتها النفطية الاستثنائية. وهناك بلدان كثيرة أخرى تعرضت لصدمات تتعلق بإيرادات النفط وغيره وتواجه الآن مهمة عاجلة تتمثل في دعم الطلب بمواردها المحدودة، لكنها تحتاج إلى إعادة بناء هوامش وقائية عندما تسمح ظروفها الدورية بذلك.

كذلك ينبغي لمعظم البلدان المصدرة للنفط أن تطوّر نموذجها الاقتصادي المعتمد للنمو بما يحقق نمواً أكثر استمرارية وتنوعاً واحتواءً لشرائح المجتمع. وقد ارتكز النموذج الاقتصادي حتى الآن على نمو الإنفاق الحكومي الذي تدعمه الزيادات في أسعار النفط. ويتعين إجراء إصلاح كبير للتحوّل إلى نموذج أكثر تنوعاً يقوده القطاع الخاص. وفي دول مجلس التعاون الخليجي، يوجد مناخ أعمال مواتٍ بوجه عام، وثغرات صغيرة في البنية التحتية. وفي هذه البلدان، تتركز أولويات الإصلاح في تحسين جودة التعليم وارتباطه باحتياجات القطاع الخاص؛ والحد من التشوهات التي تقود إلى الاعتماد على العمالة الأجنبية، ومن ثم زيادة فرص العمل في القطاع الخاص أمام المواطنين؛ وتشجيع كفاءة إنتاج السلع والخدمات التجارية بدلا من النشاط في القطاعات غير التجارية التي تحقق نمواً منخفضاً في الإنتاجية. وفي البلدان غير الأعضاء في مجلس التعاون الخليجي، يعتبر تحسين المناخ السياسي ومناخ الأعمال، ومعالجة اختناقات البنية التحتية، وتحسين فرص الحصول على التمويل بمثابة شروط أساسية مهمة لزيادة الاستثمار ورفع الإنتاجية وتحقيق نمو مستمر.

البلدان المستوردة للنفط: بطء في التعافي الاقتصادي وخلق فرص العمل

ظل النشاط الاقتصادي فاترا في في البلدان المستوردة للنفط في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان حيث بلغ ٣% تقريبا هذا العام، لكن المتوقع أن ينتعش النمو ليصل إلى ٤% في عام ٢٠١٥ (دون تغيير يذكر عن التوقعات الواردة في عدد مايو ٢٠١٤ من تقرير "مستجدات آفاق الاقتصاد الإقليمي"). وقد تسببت التوترات الاجتماعية-السياسية المتأصلة وتداعيات الصراعات الإقليمية المتزايدة في كبح النمو، ومن المتوقع أن يؤدي التحسن التدريجي في مستوى الثقة إلى دعم الطلب المحلي مع انقشاع غيوم عدم اليقين السياسي. ومن المتوقع أيضا حدوث زيادة تدريجية في الصادرات والسياحة والاستثمار الأجنبي المباشر، بدعم من التعافي الاقتصادي في أوروبا والنمو المنتظم في دول مجلس التعاون الخليجي. ومن غير المرجح أن يؤدي هذا التحسن التدريجي إلى خفض معدلات البطالة المرتفعة.

وتخضع هذه الآفاق المتوقعة لمخاطر التطورات السلبية. فمن الممكن أن يتأثر التعافي بالنكسات التي قد تعترض فترات التحوّل السياسي، والتوترات الاجتماعية والأمنية التي قد تزداد كثافة، والتداعيات المترتبة على الصراعات الإقليمية، إلى جانب النمو الذي قد يسجل معدلات دون المتوقعة لدى الشركاء التجاريين.

وقد بدأت البلدان في كبح العجز المرتفع في ميزانياتها العامة، مما سيبيح التدرج في إعادة بناء هوامشها الوقائية وتعزيز صلابتها في مواجهة الصدمات. وفي كثير من البلدان، تتحقق وفورات بفضل الإصلاحات التدريجية للدعم المعمم غير الكفاء (ومنها مصر والأردن وموريتانيا والمغرب وباكستان والسودان وتونس)، كما يجري تحويل بعض الوفورات إلى قنوات الحماية الاجتماعية الموجهة

أضواء على أهم الأحداث في منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان

لا تزال التطورات الاقتصادية في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان تعكس تنوع الظروف السائدة عبر بلدان المنطقة. فمعظم البلدان المصدرة للنفط ذات الدخل المرتفع، ولا سيما دول مجلس التعاون الخليجي، لا تزال تحقق نموا مطردا وتمتع بأساسيات مالية واقتصادية قوية، وإن كانت تواجه تحديات يتعين التصدي لها على المدى المتوسط. وفي المقابل، هناك بلدان أخرى - العراق وليبيا وسوريا - غارقة في صراعات لا تقتصر عواقبها على الجانب الإنساني وحده بل تمتد إلى الاقتصاد أيضا. وبالإضافة إلى ذلك، هناك بلدان معظمها من مستوردي النفط تحقق تقدما مستمرا في تنفيذ برنامجها الاقتصادي ولكنه تقدم غير متوازن يتوافق في الغالب مع فترات التحول السياسي ويتم في ظروف اجتماعية صعبة. وفي معظم هذه البلدان، تظل آفاق الاقتصاد المتوقعة للمدى المتوسط قاصرة عن تخفيض البطالة المرتفعة وتحسين مستويات المعيشة ما لم تتم إصلاحات اقتصادية وهيكلية مكثفة.

البلدان المصدرة للنفط: اختلاف مراحل الدورة الاقتصادية وتراجع أرصدة المالية العامة

من المتوقع أن تسجل مجموعة البلدان المصدرة للنفط في منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان صعودا تدريجيا في النمو إلى ٢,٥% في عام ٢٠١٤ (بانخفاض قدره ٠,٧٥ نقطة مئوية عن التوقعات الواردة في عدد مايو ٢٠١٤ من تقرير "مستجدات آفاق الاقتصاد الإقليمي") مع توقع مزيد من الارتفاع في العام القادم. غير أن ميزان المخاطر يرجح كفة الانخفاض، خاصة في عام ٢٠١٥، مع تباين الأداء الاقتصادي بدرجة كبيرة في مختلف بلدان المنطقة. ولا تزال الصراعات والمشكلات الأمنية تتسبب في اضطراب النشاط الاقتصادي في العراق وليبيا واليمن، وإن كان من المتوقع أن يؤدي تعافي الإنتاج النفطي إلى حد ما في هذه البلدان إلى تحسين التوقعات المستقبلية في العام القادم، مع افتراض استقرار الأوضاع الأمنية. وفي المقابل، لا يزال النمو مطردا في دول مجلس التعاون الخليجي استنادا إلى قوة الإنفاق العام على البنية التحتية وتوسع الائتمان المقدم للقطاع الخاص في كثير من البلدان. أما الاقتصاد الإيراني فيواصل التحول من الانكماش إلى تحقيق نمو طفيف.

وقد زادت المخاطر الجغرافية-السياسية وإن ظلت مخاطر أسعار النفط متوازنة. ويمكن أن يؤدي تدهور الظروف الأمنية في العراق وليبيا واليمن إلى تعميق الاضطراب في إمدادات النفط لدى هذه البلدان وإلى انحراف مسار التعافي المتوقع لإنتاج النفط في العام القادم. وفي حالة انهيار مسيرة التقارب بين إيران ومجموعة P5+1 (الأعضاء الدائمون في مجلس الأمن بالأمم المتحدة وألمانيا)، يمكن أن يؤدي تكثيف العقوبات إلى مزيد من الانخفاض في صادرات النفط الإيرانية. غير أن المملكة العربية السعودية تحتفظ بطاقة فائضة كبيرة ويمكنها تعويض جزء على الأقل من أي نقص غير متوقع يطرأ على الإمدادات من بلدان أخرى. وفي المقابل، إذا أبرمت اتفاقية دائمة بين إيران ومجموعة P5+1 وحدث تحسن في الموقف الأمني الراهن في العراق وليبيا يمكن أن يزداد عرض النفط من هذه البلدان. ومن الممكن أيضا أن تتيسر الأوضاع في أسواق النفط إذا زاد عرض النفط من المناطق الأخرى عن المستوى المتوقع (كأن يأتي ذلك من الولايات المتحدة التي لا تزال تسجل زيادة متواصلة غير متوقعة في إمداداتها النفطية) أو نتيجة انخفاض الطلب العالمي على النفط نتيجة ضعف النمو الاقتصادي العالمي. وتمثل أسعار النفط، والأوضاع الأمنية الإقليمية، مصادر خطر مهمة أيضا بالنسبة للنشاط في الاقتصاد غير النفطي.

Région MOANAP: Principaux Points

La situation économique de la région MOANAP (Moyen-Orient, Afrique du Nord, Afghanistan et Pakistan) a continué d'évoluer au gré des diversités régionales. La plupart des pays exportateurs de pétrole à revenu élevé, principalement au sein du CCG, continuent d'afficher une croissance économique régulière et de solides fondamentaux économiques et financiers, bien qu'ils doivent faire face à des défis à moyen terme. En revanche, d'autres pays—Irak, Libye et Syrie—sont frappés par des conflits aux conséquences à la fois humanitaires et économiques. D'autres encore, pour l'essentiel des pays importateurs de pétrole, continuent d'avancer dans la mise en œuvre de leur programme économique, à un rythme toutefois inégal, souvent dans un contexte de transition politique et dans des conditions sociales difficiles. Dans la plupart de ces pays, en l'absence de réformes économiques et structurelles de grande envergure, l'évolution attendue de l'économie à moyen terme ne permettra toujours pas de réduire un chômage aujourd'hui élevé ni d'améliorer les niveaux de vie.

Pays exportateurs de pétrole: positions conjoncturelles différentes et affaiblissement des soldes budgétaires

Dans le groupe des pays exportateurs de pétrole de la région MOANAP, la croissance devrait grimper à 2½ % en 2014 (soit une révision à la baisse de ¾ de point de pourcentage par rapport à la mise à jour des PER de mai 2014), puis continuer de progresser l'an prochain. Cependant, les risques sont principalement baissiers, notamment à l'horizon 2015, et les résultats économiques varient considérablement d'un pays à l'autre. Les conflits et les problèmes de sécurité continuent de perturber l'activité économique en Irak, en Libye et au Yémen, bien qu'un certain redressement de la production de pétrole dans ces pays soit de nature à améliorer les perspectives pour l'année prochaine, pour autant que la situation sécuritaire se stabilise. Par contre, dans les pays du CCG, la croissance économique se poursuit à un rythme régulier grâce au niveau élevé des dépenses publiques consacrées aux infrastructures et à l'expansion du crédit au secteur privé dans beaucoup de pays. L'économie iranienne, quant à elle, passe d'une contraction à une croissance modeste

Les risques géopolitiques se sont accentués mais les risques pesant sur l'évolution des prix du pétrole restent globalement équilibrés. Une aggravation de la situation sécuritaire en Irak, en Libye ou au Yémen pourrait perturber davantage l'offre de pétrole dans ces pays et menacer le redressement attendu de la production de pétrole l'année prochaine. Si le rapprochement entre l'Iran et le P5+1 (membres permanents du Conseil de sécurité de l'ONU plus l'Allemagne) n'aboutissait pas, l'intensification des sanctions pourrait accentuer la diminution des exportations pétrolières de l'Iran. Cela dit, l'Arabie saoudite dispose de capacités inutilisées considérables et pourrait décider de compenser au moins partiellement une baisse inattendue de la production dans d'autres pays. À l'inverse, un accord permanent entre l'Iran et le P5+1 ainsi qu'une amélioration de la sécurité en Irak et en Libye pourraient accroître l'offre de pétrole de ces pays. En outre, une offre de pétrole plus élevée que prévu dans d'autres régions (par exemple aux États-Unis, dont l'amélioration de la production ne cesse de surprendre) ou une baisse de la demande mondiale, en cas de croissance économique mondiale plus faible, pourrait également se traduire par une détente sur les marchés pétroliers. Les cours du pétrole et les conditions de sécurité régionales sont aussi des sources importantes de risque pour l'activité en dehors du secteur pétrolier.

Dans la plupart des pays exportateurs de pétrole, la situation budgétaire s'affaiblit. La hausse des dépenses publiques dans un contexte de stabilité globale des cours du pétrole devrait réduire l'excédent budgétaire à 2 % cette année, puis à 1¼ % en 2015. Dans la plupart des pays, les soldes budgétaires ne suffisent pas à

épargner une part équitable de la richesse pétrolière au profit des générations futures, d'où une vulnérabilité considérable en cas d'évolution défavorable des cours du pétrole. La plupart des pays exportateurs de pétrole doivent donc renforcer leur position budgétaire. Les pays membres du CCG peuvent mettre à profit la période actuelle de dynamisme économique pour épargner une plus grande part de leurs recettes pétrolières exceptionnelles. Beaucoup d'autres pays, qui subissent une baisse de leurs recettes pétrolières, entre autres chocs, doivent dans l'immédiat soutenir la demande avec les ressources limitées dont ils disposent, mais ils devront aussi, dès que la conjoncture le permettra, reconstituer une marge de manœuvre.

La plupart des pays exportateurs de pétrole doivent adapter leur modèle économique à l'impératif d'une croissance durable, inclusive et diversifiée. Leur modèle économique s'appuie sur la croissance des dépenses publiques alimentée par l'augmentation des cours du pétrole. Le passage à un modèle plus diversifié tiré par le secteur privé nécessite de profondes réformes. Dans les pays du CCG, le climat des affaires est généralement favorable et les déficits d'infrastructures sont modestes. Dans ces pays, les priorités en matière de réforme se centrent sur l'amélioration de la qualité de l'éducation et de sa capacité à répondre aux besoins du secteur privé; la réduction des distorsions qui conduisent à dépendre de la main-d'œuvre étrangère, de manière à accroître les possibilités d'emploi des nationaux dans le secteur privé; et les initiatives propres à encourager la production de biens et services échangeables plutôt que l'activité dans le secteur des biens non échangeables, où la croissance de la productivité est faible. Dans les pays hors CCG, il importe avant tout d'améliorer l'environnement politique et le climat des affaires, de remédier aux goulets d'étranglement d'infrastructure et de développer l'accès aux services financiers, pour accroître l'investissement, rehausser la productivité et assurer une croissance soutenue.

Pays importateurs de pétrole: lenteur de la reprise et de la création d'emplois

Dans les pays importateurs de pétrole de la région MOANAP, l'activité économique est restée terne cette année, avec un taux de croissance voisin de 3 %, mais la croissance devrait s'accélérer et atteindre 4 % en 2015 (soit des prévisions globalement inchangées par rapport à la mise à jour des PER de mai 2014). Les profondes tensions sociopolitiques et les retombées de l'intensification des conflits régionaux freinent la croissance. Une amélioration graduelle de la confiance devrait soutenir la demande intérieure à mesure que l'incertitude politique se dissipera. Les exportations, le tourisme et l'investissement direct étranger devraient également connaître un rebond, aidés en cela par la reprise en Europe et la croissance soutenue dans les pays du CCG. Il est peu probable que ces améliorations suffisent à faire baisser le taux de chômage qui reste élevé.

Les risques qui pèsent sur les perspectives sont de nature baissière. Les revers des transitions politiques, l'intensification des tensions sociales et sécuritaires et les retombées des conflits régionaux, de même qu'une croissance économique plus faible que prévu chez les principaux partenaires commerciaux sont autant de facteurs qui pourraient compromettre la reprise.

Les pays commencent à maîtriser leurs lourds déficits budgétaires, ce qui leur permettra de reconstituer progressivement une marge de manœuvre et de renforcer leur capacité de résistance aux chocs. Dans un grand nombre de pays (notamment en Égypte, en Jordanie, au Maroc, en Mauritanie, au Pakistan, au Soudan et en Tunisie), la réforme graduelle des systèmes inefficaces de subventions généralisées a permis de dégager des économies, dont une partie sert à financer une protection sociale ciblée en faveur des pauvres et à accroître les dépenses consacrées aux infrastructures, aux services de santé et à l'éducation. Cependant, dans les pays importateurs de pétrole, le ratio dette/PIB continue d'augmenter et les besoins bruts de financement extérieur devraient atteindre 100 milliards de dollars l'année prochaine.

Les projections laissant entrevoir une amélioration de la croissance l'année prochaine, la réduction progressive et continue des déficits budgétaires pourra contribuer à améliorer la confiance et renforcer la résilience de l'économie. La priorité devra être accordée aux mesures budgétaires qui pèsent le moins sur la croissance économique à court terme, encouragent la création d'emplois, limitent les effets négatifs sur les populations pauvres et réduisent les inégalités sociales. Dans un contexte de rééquilibrage budgétaire en présence d'écart de production toujours importants, une plus grande souplesse du taux de change pourrait, dans certains cas, renforcer la croissance et la compétitivité.

Les perspectives de croissance à moyen terme des importateurs de pétrole de la MOANAP se sont affaiblies plus rapidement que dans d'autres régions du monde et elles restent insuffisantes pour faire reculer un taux de chômage qui demeure obstinément élevé, surtout parmi les jeunes et les femmes. Des réformes économiques en profondeur s'imposent donc pour impulser la croissance à moyen terme et créer des emplois. La prévision actuelle de croissance faible à moyen terme s'explique par la présence de rigidités structurelles, le manque d'ouverture au commerce international et à la concurrence et les déficiences institutionnelles. Des programmes de réforme nationaux à la fois ambitieux et crédibles sont nécessaires pour surmonter ces obstacles. L'amélioration du climat des affaires et de la gouvernance ainsi que le développement des marchés financiers peuvent favoriser l'investissement et la hausse de la productivité. De plus, l'adoption de réformes du marché du travail visant à faciliter l'embauche et la formation peut se traduire par une répartition plus efficiente de la main-d'œuvre, de plus fortes rémunérations et la création plus rapide d'emplois. Enfin, la promotion d'une intégration commerciale plus poussée aiderait les pays à participer davantage aux chaînes de valeur mondiales.

Un soutien de la communauté internationale—sous forme de financements accrus, d'un meilleur accès aux marchés, de conseils de politique économique et d'aide au renforcement des capacités—sera indispensable pour permettre un ajustement macroéconomique plus graduel et moins douloureux et pour étayer les programmes de réforme à moyen terme des pays.

Région MOANAP: Principaux indicateurs économiques, 2000–17*(Pourcentage du PIB, sauf indication contraire)*

	Moyenne 2000–10	2011	2012	2013	Projections			
					2014	2015	2016	2017
MOANAP¹								
PIB réel (croissance annuelle)	5.3	4.4	4.8	2.5	2.7	3.9	4.5	4.4
Solde transactions courantes	8.7	13.2	12.7	10.0	7.8	6.2	5.1	4.2
Solde budgétaire global	3.1	1.7	2.6	0.0	-1.0	-1.4	-1.6	-2.1
Inflation, p.a. (croissance annuelle)	7.0	9.3	10.0	9.9	8.0	8.1	7.4	7.3
Exportateurs de pétrole de la région MOANAP								
PIB réel (croissance annuelle)	5.5	5.3	5.7	2.2	2.5	3.9	4.5	4.4
Solde transactions courantes	12.7	18.4	18.4	14.8	11.6	9.8	8.5	7.4
Solde budgétaire global	7.2	5.7	7.6	4.4	2.0	1.2	0.7	0.0
Inflation, p.a. (croissance annuelle)	7.2	8.8	10.3	10.2	7.0	7.5	7.2	7.2
Dont: Conseil de coopération du Golfe								
PIB réel (croissance annuelle)	5.4	8.1	5.8	4.1	4.4	4.5	4.5	4.5
Solde transactions courantes	14.8	23.8	24.6	20.9	17.9	15.9	14.0	12.3
Solde budgétaire global	11.2	11.7	14.2	10.9	7.9	5.3	3.9	2.5
Inflation, p.a. (croissance annuelle)	2.9	3.0	2.4	2.8	2.8	3.1	3.4	3.6
Importateurs de pétrole de la région MOANAP								
PIB réel (croissance annuelle)	5.0	2.5	2.9	3.0	3.1	3.9	4.3	4.5
Solde transactions courantes	-1.7	-3.5	-5.6	-4.5	-3.5	-4.4	-4.6	-4.5
Solde budgétaire global	-4.9	-7.1	-8.4	-9.5	-7.5	-6.9	-6.6	-6.4
Inflation, p.a. (croissance annuelle)	6.6	10.3	9.4	9.1	9.9	9.6	7.9	7.5
MOAN¹								
PIB réel (croissance annuelle)	5.4	4.5	4.8	2.3	2.6	3.8	4.5	4.4
Solde transactions courantes	9.5	14.2	13.8	10.9	8.6	6.8	5.7	4.8
Solde budgétaire global	4.0	2.7	3.9	1.0	-0.6	-1.0	-1.4	-1.9
Inflation, p.a. (croissance annuelle)	6.9	8.8	9.9	10.2	7.9	8.2	7.5	7.4
Importateurs de pétrole MOAN								
PIB réel (croissance annuelle)	5.1	1.8	2.0	2.6	2.6	3.7	4.2	4.4
Solde transactions courantes	-1.9	-5.1	-7.5	-6.2	-4.7	-5.9	-5.7	-5.5
Solde budgétaire global	-5.5	-7.4	-8.7	-10.5	-9.3	-8.5	-8.5	-8.3
Inflation, p.a. (croissance annuelle)	6.2	8.6	8.6	10.1	10.8	10.6	8.6	8.3
Pays arabes en transition (hors Lybie)								
PIB réel (croissance annuelle)	4.9	1.0	2.5	2.7	2.5	3.8	4.2	4.3
Solde transactions courantes	-0.3	-5.0	-6.1	-4.8	-3.2	-4.5	-4.5	-4.4
Solde budgétaire global	-5.7	-8.2	-9.1	-11.3	-9.9	-8.9	-9.0	-8.7
Inflation, p.a. (croissance annuelle)	6.6	8.4	6.1	7.8	8.3	10.1	8.8	8.7

Sources: autorités nationales; calculs et projections des services du FMI.

Notes: Les données renvoient à l'exercice pour les pays suivants: Afghanistan (21 mars/20 mars jusqu' à l'année 2011, et 21 décembre/20 décembre pour les années suivantes) et Iran (21 mars/20 mars), Qatar (avril/mars) et Égypte et Pakistan (juillet/juin).

Exportateurs de pétrole MOANAP: Algérie, Arabie saoudite, Bahreïn, Émirats arabes unis, Iran, Iraq, Koweït, Libye, Oman, Qatar et Yémen.

Importateurs de pétrole MOANAP: Afghanistan, Djibouti, Égypte, Jordanie, Liban, Maroc, Mauritanie, Pakistan, Soudan, Syrie et Tunisie.

MOAN: MOANAP à l'exclusion de l'Afghanistan et du Pakistan.

Pays arabes en transition (hors Lybie): Égypte, Jordanie, Maroc, Tunisie et Yémen.

¹ Les données de 2011–17 excluent la République arabe syrienne.

1. MENAP Oil Exporters: Increasing Diversification, Reducing Reliance on Oil-Funded Spending

Intensified conflicts in Iraq and Libya have led to a downward revision in the 2014 growth projections for the MENAP oil exporters by ¾ of a percentage point compared with the May 2014 Regional Economic Outlook Update. At 2½ percent, growth in the oil exporters is expected to edge up only slightly from last year, supported by recovery in Iran and continued solid growth in the GCC countries. Growth is expected to strengthen to about 4 percent next year, assuming that security improves and oil production in non-GCC countries, particularly Libya and Iraq, recovers. In the current security environment, these projections are subject to heightened uncertainty. Declining oil revenues and rising government spending are weakening fiscal positions. Consolidation would build resilience against oil price declines and help countries share their oil wealth with future generations. Some non-GCC countries face the pressing need to draw on their savings over the near term to meet essential expenditures. Reducing the dependence of sustained economic growth on rising oil prices requires structural reforms that promote economic diversification and inclusive growth.

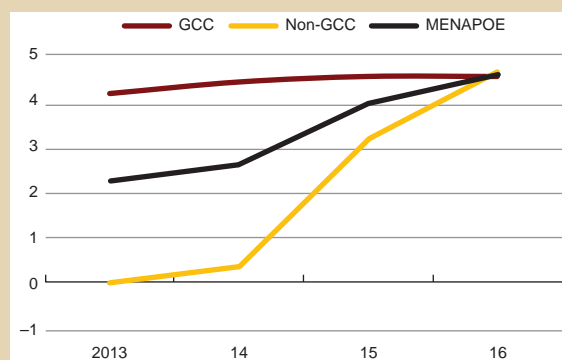
Rising 2015 Growth Depends on Improving Security

Economic growth is expected to edge up only by ¼ of a percentage point to 2½ percent this year. Growth projections have been revised down by ¾ of a percentage point relative to the May 2014 *Regional Economic Outlook* (REO) Update projections, mainly reflecting declining activity in Iraq and Libya owing to intensified conflicts. The contrast in economic performance between GCC and non-GCC countries in 2014 sharpened because the conflicts have caused additional setbacks to oil production in Iraq and Libya, while economic activity in GCC members has been stronger than expected as these countries compensated for shortfalls in oil production in non-GCC countries and, also, increased their fiscal spending (Figure 1.1). Growth is projected to strengthen to about 4 percent in 2015, driven by an expected turnaround in non-GCC oil production, which is contingent on improvements in security.

- GCC countries are expected to record growth of 4½ percent in 2014 and 2015. Oil production is projected to rise slightly

Prepared by Alberto Behar and Harald Finger, with research assistance by Brian Hiland.

Figure 1.1
Growth to Rise on Delayed Non-GCC Recovery
(Real GDP, annual percentage change)



Sources: National authorities; and IMF staff calculations.

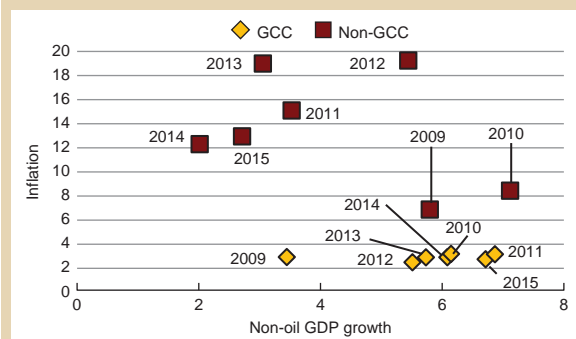
beyond the current (already high) levels as these countries respond to supply disruptions outside the GCC. Growth in the non-oil sectors will remain high at about 6 percent in 2014 and 2015. Rising government capital expenditure and public sector salaries, along with ample private sector credit expansion in many countries, are supporting domestic consumption and investment. Public infrastructure megaprojects, especially in Qatar, Saudi Arabia, and the United Arab Emirates, are expected to continue to fuel strong expansions in tourism, transport, construction, and wholesale/retail trade.

- By contrast, deteriorating security conditions in some non-GCC countries have led to a 2¼ percentage point downward revision in the non-GCC growth forecast for 2014 to ¼ percent, despite a return to positive growth in Iran. Militants’ occupation of important cities in northern Iraq is expected to reduce Iraq’s GDP by 2¾ percentage points in 2014 (Box 1.1), ongoing political turmoil and conflict have again disrupted Libya’s oil production, and Yemen is enduring sabotage of oil facilities as well as a drought. Iran’s economy is beginning to show signs of recovery following the sanctions-induced 2012–13 recession, but the recovery remains fragile. Non-GCC growth could rise to about 3 percent in 2015, provided security conditions allow a rebound in oil production in Iraq, Libya, and Yemen. This assumption is subject to considerable uncertainty, however, as discussed below.

Softening international food prices will help contain inflation despite rising economic growth rates. This is consistent with patterns in recent years, when faster economic growth did not trigger higher inflation (Figure 1.2).

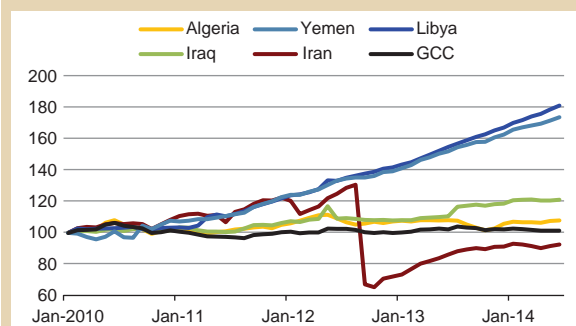
- In the GCC countries, pegged exchange rates, a benign global inflationary environment, reliance on imports, and employment of abundant migrant labor in the nontradable sectors are expected to keep inflation close to 3 percent despite rising housing costs and rapid credit growth in some countries. Real exchange rates have been relatively stable (Figure 1.3).
- In many non-GCC countries, higher inflation has been driven by shortages induced by supply shocks caused by conflict, trade disruptions, or adverse weather. Real exchange rate appreciation has been the result in many countries. As Iran begins to recover from stagflation, a fall in its inflation rate will bring down the non-GCC inflation aggregate to about 12 percent in 2014. However, ceilings on deposit interest rates and subsidy reform in

Figure 1.2
Faster Growth Has Not Prompted Higher Inflation
(CPI inflation and non-oil GDP growth, percent)



Sources: National authorities; and IMF staff calculations.
Note: CPI = consumer price index.

Figure 1.3
MENAP Oil Exporters: Real Effective Exchange Rates
(Index January 2010 = 100)



Sources: National authorities; and IMF staff calculations.

Iran, a drought and a recent fuel price increase in Yemen, and shortages in Iraq are expected to keep aggregate non-GCC inflation high at about 13 percent in 2015.

Strong macroeconomic fundamentals and institutional changes have drawn capital inflows to the GCC. Credit default swap spreads and long-term yields have been falling since the start of 2014. Similarly, GCC stock markets showed strong gains in the first half of the year, especially in the United Arab Emirates, where the Dubai index rose by more than 50 percent in the first four months before experiencing a correction. The GCC has

Box 1.1

Economic Implications of the Iraq Conflict

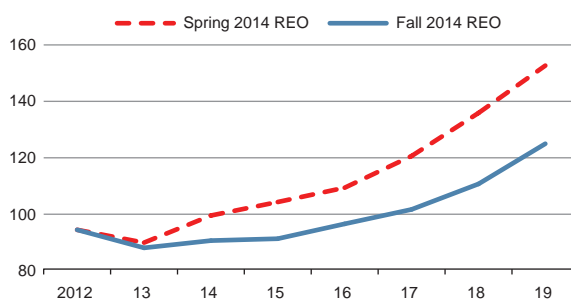
In Iraq, the conflict and humanitarian crisis intensified during the summer. Islamic State (IS) militants consolidated their control over regions in the north and west and the border with Syria. Their attacks on areas controlled by the Kurdistan Regional Government and their persecution of religious minorities prompted air raids by the United States. As of August, more than 10,000 persons had been killed and approximately 1.8 million Iraqis have been displaced so far in 2014, their numbers adding to the 225,000 Syrian refugees who had fled to Iraq from the ongoing, devastating conflict in Syria (see Box 1 in the May 2014 *Regional Economic Outlook* [REO] Update).

As a result of the fighting, the economy is likely to contract in 2014. The conflict has halted the expansion of Iraq's oil production, which is expected to decline slightly to 2.9 mbd, while exports of 2.4 mbd should remain close to last year's level. Non-oil GDP growth will also likely move to negative territory, compared to growth of over 7 percent in 2013, as fighting undermines confidence, disrupts the supply of fuel and electricity, increases trade and distribution costs, and depresses investment. The government budget is under pressure from security spending and the humanitarian crisis, while oil revenues are subdued; however, foreign exchange markets have remained stable despite reports of some deposit withdrawals.

The crisis is delaying medium-term plans to ramp up oil production. The near-term impact of the conflict on oil production and exports appears for the moment contained. Higher exports from the southern fields (which are far from the fighting) have so far compensated for the volumes lost to the sabotage of the northern pipeline. However, the deterioration of security will harm the technical and administrative ability to expand oil production and exports over the medium term (Figure 1.1.1). Oil production is now expected to reach only 4.4 mbd in 2019, compared with the May 2014 REO projection of 5.6 mbd.

Figure 1.1.1

Iraq: Medium-Term Oil Exports (Billions of U.S. dollars)



Sources: Iraqi authorities; and IMF staff calculations.

Regional Spillovers

The conflict in Iraq could affect the region through multiple channels:

- **Security disruptions may weaken confidence.** The conflict in Syria and Iraq could affect security conditions in other countries in the region—primarily Jordan, Kuwait, and Lebanon—depressing domestic consumption, harming tourism, and discouraging domestic and foreign investment.
- **The closure of border crossings is hampering regional trade.** Increasing violence and border shutdowns have blocked trade routes, impeding exports to Iraq from Jordan, Lebanon, and Syria. Iraq's oil exports to Jordan have been halted since January 2014. Turkey's exports to Iraq (about 8 percent of Turkey's total) have slumped in recent months. Turkish exports would be further damaged by the closure of trade routes to the Gulf through Iraq. Iranian exports to Iraq may have compensated for some of the decline in imports from these countries—Iraq has become the largest buyer of Iranian non-oil exports.
- **Further fighting may intensify refugee flows across the region.** The Mashreq region has seen very large flows of Syrian refugees, now numbering about 2.9 million, who are concentrated in Lebanon (1.2 million) and Jordan (more than 600,000); other important destinations are Iraq and Turkey. Humanitarian and economic pressures on these and other countries in the region would be intensified by large refugee inflows from an escalation of hostilities in Iraq.
- **Direct financial linkages are limited.** Several foreign banks are active in Iraq, but their operations are generally small and focused on trade financing.

Prepared by Francisco Parodi and Carlo Sdralevich with input from Alberto Behar, Patrick Blagrove, Harald Finger, and Ben Hunt.

Box 1.1 (concluded)**Global Implications**

Although the global implications under current baseline projections would be contained, the conflict (should it spread so far as to disrupt oil exports) could lift oil prices and reduce global growth.

- Barring a drastic intensification of the conflict, the near-term decline in global oil exports is expected to be small: Iraq has been able to keep exports steady, and Saudi Arabia has significant spare capacity to compensate for any remaining shortfalls.
- The medium-term impact is also expected to be contained. Amid likely stagnant demand for OPEC crude over the medium term (November 2013 REO, Annex I), Iraq's smaller than previously expected contributions to expanding OPEC spare capacity will ease downward pressure on other OPEC members' output decisions and on global oil prices.
- By contrast, under a downside scenario that envisions a spread of the conflict to Baghdad and the south, Iraq's oil exports could fall by half (roughly 1½ percent of global oil consumption) from current levels, with only half of that decline offset by higher production from global spare capacity (*World Economic Outlook*, October 2014). In such an event, the oil price could rise substantially, depending, in part, on whether ongoing supply disruptions in other countries keep global oil markets so tight that Iraq's disruption would lead to substantially higher precautionary demand for oil inventories. In the scenario, the oil price is assumed to rise by 20 percent in the first year and return to the baseline as the supply disruption unwinds over three years. The oil price spike could lead to reduced appetite for risk in financial markets because confidence effects could affect global equity prices. The combined effects of higher oil prices and reduced appetite for risk could leave global economic output 1½ percent lower than in the baseline scenario after two years.

been viewed as a relatively safe destination for capital during periods of global financial market volatility (Box 1.2) and regional turmoil.

Banking systems have generally remained sound. In many countries, high capitalization, stable profitability, and low nonperforming loans limit risks. Private sector credit has been expanding faster than economic activity in many countries, which may indicate recovery from the global financial crisis and a welcome sign of capital deepening; however, in some countries, fast credit growth, high loan concentrations, and corporate governance deficiencies warrant vigilance. In most non-GCC countries, banking systems remain underdeveloped and/or affected by broader security issues. Islamic banking has expanded rapidly, particularly in the GCC, but risk management capabilities are still developing and regulatory, and supervisory frameworks are not yet tailored to address risks specifically related to Islamic finance.

Oil Price Risks Remain Balanced, but Geopolitical Risks Have Risen

Amid persistent downside risks to global oil demand and two-way uncertainty about oil supply (estimated at about 2 mbd or about 2 percent of global oil supply each way), options markets perceive oil price risks as broadly balanced. Although intensified geopolitical risks point mainly to the upside for oil prices, there are also significant downside risks related to higher global supply and lower global demand. With a one-in-three chance that the oil price will be above US\$112 or below US\$87 in the middle of 2015, countries are vulnerable to oil price declines, as increased government spending has raised breakeven oil prices in most countries (Figure 1.4).

- The difficult and rapidly evolving security situation could lead to further supply disruptions in non-GCC countries, raising

Box 1.2

Capital Flows to GCC Countries

GCC countries are among the largest recipients of private portfolio flows in the MENAP region. In recent episodes of rising global risk aversion, the GCC countries' strong external positions have led investors to view them more favorably than the broader emerging market asset class.

Although capital flows to GCC countries have generally been correlated with capital flows to other emerging markets, this relationship has weakened since the U.S. Federal Reserve in May 2013 unveiled plans to taper its asset purchases. Measured by estimated portfolio flows through July 2014, the cumulative impact of tapering and emerging market volatility since May 2013 was less negative for GCC countries. Cumulative outflows during the period amounted to US\$780 million (0.05 percent of GDP or 3.5 percent of assets under management [AUM]), compared with cumulative outflows in other emerging markets of US\$79 billion (0.35 percent of GDP or 6.1 percent of AUM) (Figure 1.2.1).¹

In the period following the tapering announcement, from May to September 2013, weekly bond and equity outflows from GCC countries were broadly in line with weekly outflows from other emerging markets. Pressures eased in September 2013, when the U.S. Federal Reserve surprised markets by delaying tapering, but resumed in late January/early February 2014 triggered by concerns about emerging market fundamentals and vulnerabilities.² During the latter period, GCC countries were markedly less affected: portfolio outflows were only half those from other emerging markets. After this period of volatility, outflows continued more slowly into March, but funds flowed back to the GCC and other emerging markets during the second quarter of 2014.

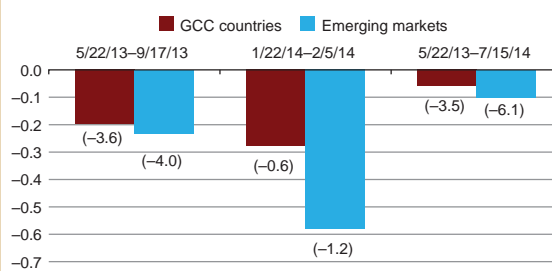
In the period since May 2013, investor sentiment toward emerging markets was at first broadly negative, but investors increasingly began to distinguish more among emerging markets.

In particular, there was no discernible relationship between fundamentals and outflows in the first episode, but countries with stronger fiscal or external positions experienced milder outflows in the second period (IMF *Global Financial Stability Report*, April 2014). The GCC countries stand out from other emerging markets, simultaneously exhibiting much higher external surpluses and smaller outflows of capital (Figure 1.2.2). Moreover, mimicking the pattern within other emerging markets, outflows were lowest among GCC countries where surpluses were highest. The strength in GCC countries' external sectors thus appears to have been an important factor explaining the limited capital outflows during the second period of volatility.³

Figure 1.2.1

Net Portfolio Flows¹

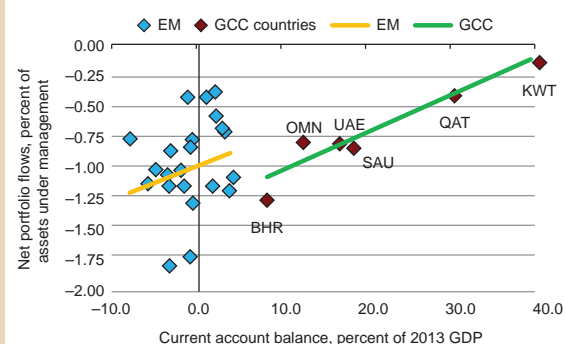
(One-week equivalent flows, percent of assets under management; cumulative flows in parentheses)



Sources: EPFR Global; and IMF staff calculations.

¹Portfolio flows are represented by EPFR equity and bond fund flows.

Figure 1.2.2

Second Period (1/22/14–2/5/14): Net Portfolio Flows¹ and Current Account Balance

Sources: EPFR Global; and IMF staff calculations.

Notes: EM = emerging markets.

¹Portfolio flows are represented by EPFR bond and equity fund flows.

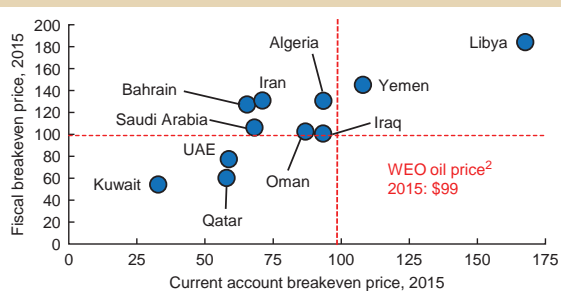
Prepared by Alberto Behar, Harald Finger, and Gregory Hadjian.

¹ Portfolio flows to GCC countries tend to be lower as a percentage of GDP than in other emerging markets, and thus have less of an impact on these economies. The data source (EPFR) covers only a subset of total portfolio flows to the GCC and other emerging markets but is commonly used as a proxy.

² This period covers the most volatile weeks in the early 2014 sell-off, as measured by market-based indicators such as volatility and emerging market bond and equity indexes.

³ Institutional changes, for example the inclusion of Qatar and the United Arab Emirates in the MSCI Emerging Markets Index in May 2014, are also supporting capital inflows.

Figure 1.4

Oil Price Uncertainties Increase Vulnerabilities*(Breakeven prices, U.S. dollars per barrel)¹*

Sources: National authorities; and IMF staff calculations.

Note: WEO = World Economic Outlook database.

¹2013 breakeven prices for Yemen.²Simple average of U.K. Brent, Dubai, and West Texas Intermediate spot prices.

oil prices. Escalation of the civil war in Iraq could disrupt oil exports and even spill over to other oil producers. In Libya and Yemen, the expected recovery in oil production could once again be derailed if the security situation does not improve. In the case of a breakdown of rapprochement between Iran and the P5+1,¹ intensified sanctions could further reduce Iran's oil exports. In a highly unlikely event that all risks materialize simultaneously, about 2 mbd of non-GCC oil supply could be in jeopardy. Moreover, owing to possible additional sanctions on Russia, hydrocarbon prices could face additional upward pressure from actual or feared reductions in Russian oil and gas exports. Price increases could be mitigated if other oil producers in the Middle East, particularly Saudi Arabia, were to step up their oil production in response.²

- By contrast, oil prices could face downward pressure from higher-than-expected oil supply. Non-GCC oil output could beat expectations.

¹The P5+1 comprises the five permanent members of the UN Security Council (China, France, Russia, the United Kingdom, the United States) plus Germany.

²On several occasions during periods of global oil supply shortages, Saudi Arabia, with its high spare oil production capacity of 2.7 mbd, has responded by increasing production (see Box 4, Chapter 3, 2014 IMF *Spillover Report* [2014a]).

For example, improvements in Iran's external environment would enable it to export almost 1 mbd more oil than currently expected and could restore non-oil activity sooner, with a significant impact on the region. Iraq and Libya's 2015 oil production could recover more quickly than projected if their security situation improves rapidly. U.S. oil output could again surprise on the upside, and recent changes in regulatory regimes have increased the prospect that other countries could replicate the United States' successful exploitation of unconventional oil and gas resources over the medium term. These possibilities, which combined represent possibly 2 mbd of additional oil supply in the short term, entail downside risks for the region's oil revenues.

- In addition, global oil demand could suffer from lower global growth in the case of a sudden worsening of financial market conditions or a protracted weak recovery.

Risks to the non-oil economy include intensification of conflict and policy inertia. Importantly, a full-fledged civil war in Iraq would acutely damage non-oil activity there and in neighboring countries (Box 1.1).

Falling Oil Revenues and Rising Government Spending Are Weakening Fiscal Positions

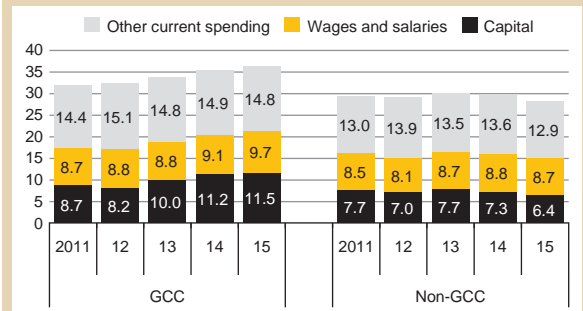
Although countries appropriately supported demand during the global recession, cyclical conditions now warrant a return to fiscal consolidation in some cases, particularly where monetary policy remains accommodative under pegged exchange rates. In the GCC, years of fast growth since the global financial crisis, rising asset prices, rapid credit growth in some countries, and accommodative global monetary conditions call for a return to fiscal consolidation, supported by macroprudential measures to address overheating risks if needed (Arvai, Prasad, and Katayama 2014). Amid oil revenue and other shocks, many non-GCC countries face the immediate and more difficult task of supporting

demand with limited resources. For example, Iraq and Libya are, of necessity, drawing on previously accumulated oil wealth to meet essential spending needs, but Algeria should take advantage of its relatively favorable near-term economic outlook and start reducing its deficit. Fiscal consolidation would build resilience against future shocks and help remedy deteriorating fiscal positions:

- Oil revenues have stopped rising, but government spending has not. Although oil supply disruptions have allowed oil prices to stay higher than expected, they have hovered at about US\$105 a barrel since 2011, and financial markets continue to predict they will decline over the medium term. In addition, oil production disruptions in most non-GCC countries, maturing fields, and small non-oil receipts combine to reduce revenue by an estimated 3½ percentage points of GDP between 2011 and 2015. In contrast, government spending is forecast to have risen by 7 percent per year in real terms between 2011 and 2015—an increase of 2 percentage points as a share of GDP, much of it on hard-to-reverse current spending items (Figure 1.5).
- Fiscal balances are forecast to deteriorate (Figure 1.6). Notably, Saudi Arabia is expected to run a central government fiscal deficit as early as 2015. In aggregate, after reaching a peak of 7¾ percent of GDP in 2012, the oil exporters’ fiscal surplus is expected to be only 1¼ percent in 2015 and to vanish by 2017 (Figure 1.7). Even if oil prices remain at their peak 2014 levels, fiscal balances will deteriorate if policies do not change. Moreover, an unanticipated additional 1 mbd of oil supplied from outside the MENAP region from 2015 onward could, by one estimate, lead to an approximately 12 percent fall in oil revenues, which would likely weaken fiscal balances by 3 percent of GDP.³

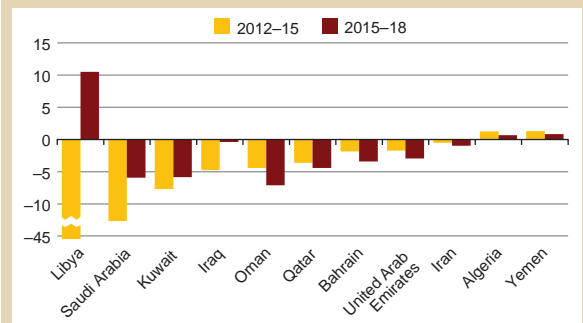
³ For additional supply from within the region, the negative oil price effect on fiscal balances would likely outweigh the positive effect of higher oil production.

Figure 1.5
Wages and Capital Raise GCC
Government Spending
(Percent of GDP)



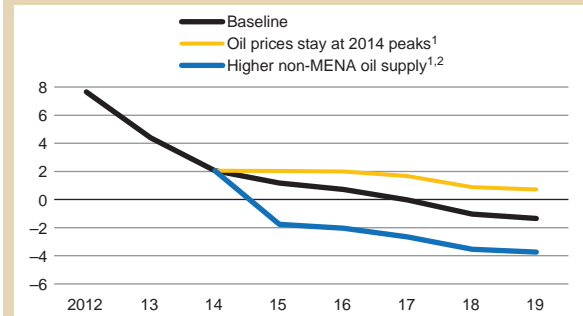
Sources: National authorities; and IMF staff calculations.

Figure 1.6
Fiscal Positions Are Weakening
(Change in fiscal balance,¹ percent of GDP)



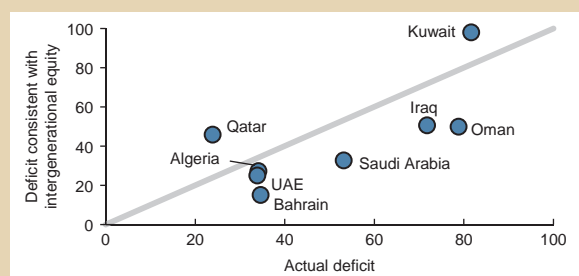
Sources: National authorities; and IMF staff calculations.
¹Central government fiscal balance for Saudi Arabia and Oman.

Figure 1.7
High Oil Prices Will Not Save Fiscal Positions
(MENAP oil exporters: fiscal balance, percent of GDP)



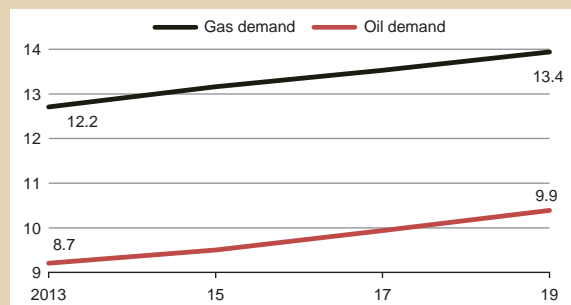
Sources: National authorities; and IMF staff calculations.
¹Assuming no policy response.
²Unanticipated increase of 1 mbd, starting 2015.

Figure 1.8
Nonhydrocarbon Deficits Are Too High for Intergenerational Equity in Most Countries
(Nonhydrocarbon primary deficit, percent of nonhydrocarbon GDP, 2013)



Sources: National authorities; and IMF staff calculations.

Figure 1.9
Oil and Gas Consumption Are Growing
(Middle East: oil and gas demand as a share of global demand, percent)

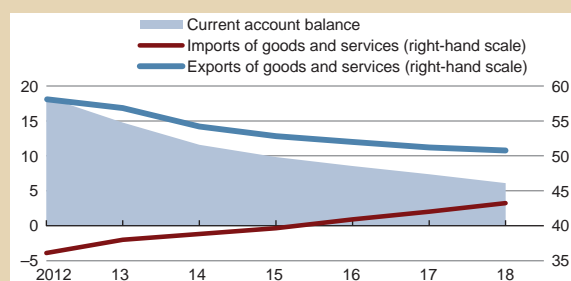


Source: International Energy Agency.

- Although the deterioration in fiscal positions is common among most oil exporters, fiscal positions are generally stronger in the GCC countries. Qatar and Kuwait currently have substantial buffers and long-lasting hydrocarbon resources. So do the United Arab Emirates and Saudi Arabia, but these countries are not yet saving enough wealth for future generations (Figure 1.8). Algeria, Bahrain, Oman, and Yemen have shorter resource horizons and weaker fiscal positions than the above-mentioned countries. Iran, Iraq, and Libya have long resource horizons but have limited financial buffers to support aggregate demand in the face of shocks to oil exports.

Echoing trends in fiscal balances, external current account balances are forecast to decline. Given demographic trends, economic structures, and low domestic energy prices, Middle East oil exporters are expected to sustain gas consumption growth that outpaces the rest of the world (Figure 1.9), restraining hydrocarbon export growth in most cases. With non-oil exports failing to compensate and demand for imports rising, external current account balances are forecast to decline from a peak of 18½ percent of GDP in 2012 to less than half that value in 2016 (Figure 1.10). Surpluses are already too low to accumulate the external wealth needed to pay for the import needs of future generations once oil export revenues dry up.

Figure 1.10
Current Account Balances Are Falling
(MENAP oil exporters; percent of GDP)



Sources: National authorities; and IMF staff calculations.

To strengthen their fiscal positions, most countries need to reform energy subsidies, raise non-oil revenues, and strengthen systems for controlling budget spending.

- Rationalizing energy subsidies while protecting those in need would generate budgetary resources that could be used for strengthening fiscal positions or increasing priority expenditures. Moreover, it would encourage greater energy efficiency. Some countries, notably Yemen, have already made progress in addressing large energy subsidies.
- Non-oil revenues among oil exporters in the MENAP region tend to be lower than those of other oil exporters. Collecting more non-oil revenues can help increase resilience to oil market developments.

- A medium-term fiscal framework, informed by realistic oil price assumptions and supported by new or upgraded macrofiscal units, would more effectively anchor actual spending decisions and mitigate the risk of overruns.

Growth from Diversification, Not Rising Oil Prices

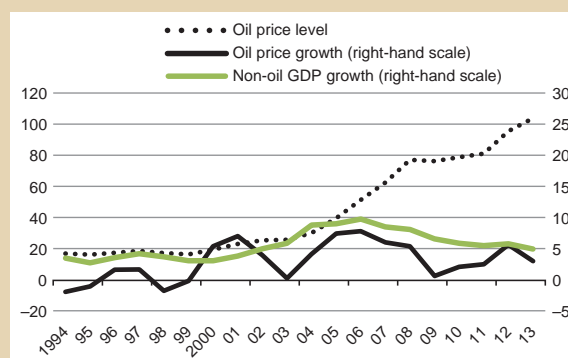
The favorable short-term growth outlook appears less positive when placed in historical perspective. In 2002–08, for example, non-oil GDP growth rates exceeded 8 percent and coincided with strong employment growth. Oil prices almost quadrupled from US\$25 a barrel over the same period. This episode of repeated and large rises in oil prices is unlikely to recur in the future.

Empirical evidence suggests that high rates of GDP growth in commodity exporters are driven much more by concurrent *growth* in commodity prices than by high levels of commodity prices (Gruss, 2014). Regression analysis for MENAP oil exporters suggests that the relationship of non-oil GDP growth to oil price growth is five times stronger than it is to oil price levels (Figure 1.11). Rising oil prices tend to prompt higher government spending, raising non-oil GDP growth, but only in the short term (Husain, Tazhibayeva, and Ter-Martirosyan 2008).

On current policies and in the absence of rapid and sustained oil price rises, medium-term non-oil GDP growth can only be supported at the cost of unsustainable fiscal policies. Non-oil growth is in most cases concentrated in service sectors that rely on demand generated by oil revenues; moreover, in many cases, productivity in the non-oil economy has been declining (Annex I). The existing model will not be able to generate enough jobs to absorb the growing population into the workforce, making more urgent the need to generate inclusive growth based on diversification and private sector job creation.

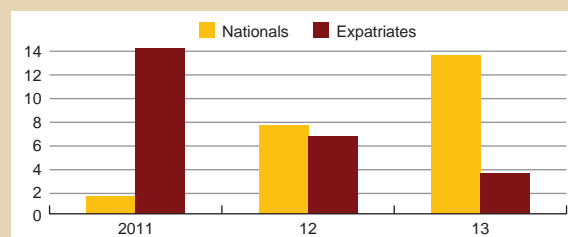
In the GCC, the business environment is favorable by international standards, infrastructure gaps are small, and the efficiency of high capital spending is comparable with that in other countries (Annex II).

Figure 1.11
GDP Growth Relies on Rising Oil Prices
(Brent oil price and non-oil GDP three-year moving averages)



Sources: National authorities; and IMF staff calculations.

Figure 1.12
Signs That Labor Market Reforms Are Bearing Fruit?
(GCC¹ private sector employment, percent change)



Sources: National authorities; and IMF staff calculations.

¹Bahrain, Kuwait (data to June 2013), Oman, and Saudi Arabia (data to June 2013).

Moreover, labor market reforms in Saudi Arabia⁴ and elsewhere are under way (Figure 1.12). To build on this progress, further measures can include:⁵

- **Improving education quality.** Although enrollment rates and education spending are high, education quality is low by global standards. Improved education provision and coordination with employers to provide

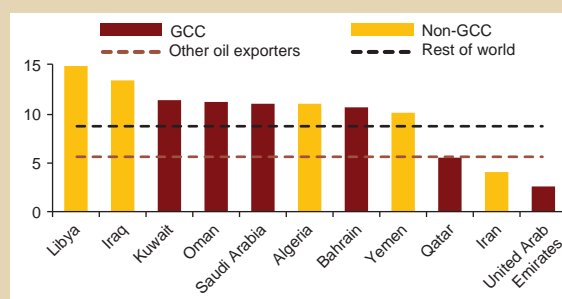
⁴“Saudi Arabia: 2014 Article IV Consultation,” IMF Country Report No. 14/292 (Washington, 2014).

⁵ For a detailed assessment of policies to support diversification in the GCC, see Cherif and Hasanov (2014), and the proceedings of the conference “Economic Development, Diversification, and the Role of the State” in Kuwait, April 2014 (<http://www.imf.org/external/np/seminars/eng/2014/mcd/>).

on-the-job training can—over time—encourage firms to hire nationals in the private sector and raise productivity. Well-designed active labor market policies can be equally important.

- ***Restraining growth in public wage bills and incentivizing GCC men and women to seek private sector jobs.*** The public sector pays high wages and is the employer of first and last resort, which creates distortions by raising nationals' reservation wages for private sector employment. Moreover, as discussed earlier, public sector hiring is a fiscally unsustainable job creation mechanism, yet wage bills are high by international standards (Figure 1.13) and are rising as a share of GDP (Figure 1.5). Steps to increase female labor force participation (see Box 1.3, November 2013 *Regional Economic Outlook*) and conditioning unemployment assistance on active job search or training could also increase the pool of nationals available to firms.
- ***Reducing distortions that lead to excessive reliance on foreign labor.*** In certain fields, carefully targeted and temporary wage subsidies can help reduce the business cost of hiring nationals instead of expatriates. Improving the enforcement of existing migrant rights and increasing their mobility within host countries could enhance productivity by facilitating more efficient allocation of workers to vacancies, help somewhat to reduce the difference in cost between hiring domestic and foreign workers, and make growth inclusive by improving migrants' living standards.
- ***Gradually reducing energy subsidies*** would help prevent diversion of investment to sectors that are energy-intensive but not job-intensive.
- ***Reorienting incentives toward tradable sectors.*** Rising government spending on infrastructure and wages skews incentives for domestic production toward low-skill and low-value-added nontradable goods and services. To encourage tradable production, policies need to focus on reducing barriers to competition and stepping up trade facilitation and export promotion.

Figure 1.13
Public Sector Wage Bills Are High
(Percent of GDP, 2014)



Sources: National authorities; and IMF staff calculations.

Non-GCC countries face a number of longstanding prerequisites for sustained growth, which to varying degrees have been difficult to enact because of adverse economic, political, and security circumstances:

- ***An improved business and political environment.*** Addressing the poor security situation of some countries, although extremely difficult, will be crucial to increase and stabilize oil production. Because political instability deters foreign direct investment flows to nonresource tradable sectors more than to the resource-intensive and nontradable sectors (World Bank 2013), an improved political environment would encourage growth and diversification.
- ***Lower bureaucratic costs associated with starting and running a business, and enhanced access to finance*** will promote private sector entrepreneurship (Annex III).
- ***Higher public infrastructure spending when resources allow***, while containing current expenditures. Public capital spending has been falling as a share of GDP (Figure 1.5), understandably, given the immediate spending needs of some countries; however, the fiscal multiplier for capital spending is more than twice as high as that for current spending (Abdallah and others forthcoming) and can have long-lasting effects on the level of output (Chapter 3, October 2014 *World Economic Outlook*).

MENAP Oil Exporters: Selected Economic Indicators

	Average 2000–10	2011	2012	2013	Projections	
					2014	2015
Real GDP Growth	5.5	5.3	5.7	2.2	2.5	3.9
<i>(Annual change; percent)</i>						
Algeria	3.9	2.8	3.3	2.8	3.8	4.0
Bahrain	5.5	2.1	3.4	5.3	3.9	2.9
Iran, Islamic Republic of	5.0	3.9	-6.6	-1.9	1.5	2.2
Iraq	...	10.2	10.3	4.2	-2.7	1.5
Kuwait	4.8	10.2	8.3	-0.4	1.4	1.8
Libya	4.6	-62.1	104.5	-13.6	-19.8	15.0
Oman	3.6	4.1	5.8	4.8	3.4	3.4
Qatar	12.7	13.0	6.1	6.5	6.5	7.7
Saudi Arabia	5.0	8.6	5.8	4.0	4.6	4.5
United Arab Emirates	4.8	4.9	4.7	5.2	4.3	4.5
Yemen	4.5	-12.7	2.4	4.8	1.9	4.6
Consumer Price Inflation	7.2	8.8	10.3	10.2	7.0	7.5
<i>(Year average; percent)</i>						
Algeria	3.3	4.5	8.9	3.3	3.2	4.0
Bahrain	1.6	-0.4	2.8	3.3	2.5	2.4
Iran, Islamic Republic of	14.5	21.5	30.5	34.7	19.8	20.0
Iraq	20.7	5.6	6.1	1.9	4.7	6.2
Kuwait	3.1	4.9	3.2	2.7	3.0	3.5
Libya	3.8	15.9	6.1	2.6	4.8	6.3
Oman	2.6	4.0	2.9	1.2	2.8	2.8
Qatar	5.0	1.9	1.9	3.1	3.4	3.5
Saudi Arabia	1.8	3.7	2.9	3.5	2.9	3.2
United Arab Emirates	5.1	0.9	0.7	1.1	2.2	2.5
Yemen	11.0	19.5	9.9	11.0	9.0	11.4
General Government Overall Fiscal Balance	7.2	5.7	7.6	4.4	2.0	1.2
<i>(Percent of GDP)</i>						
Algeria	5.2	-1.2	-4.1	-1.9	-5.1	-5.1
Bahrain ¹	0.4	-1.5	-3.2	-4.3	-4.8	-5.7
Iran, Islamic Republic of ²	2.7	-1.4	-2.0	-2.3	-2.1	-2.2
Iraq	...	4.7	4.1	-5.9	-3.0	-0.6
Kuwait ¹	28.0	34.7	34.8	32.1	28.6	26.5
Libya	14.0	-15.9	27.8	-4.0	-52.1	-30.2
Oman ¹	9.6	9.4	4.6	8.1	3.0	0.2
Qatar	8.3	6.5	9.6	15.4	11.4	9.0
Saudi Arabia	10.7	12.0	14.7	8.7	5.2	1.6
United Arab Emirates ³	6.5	4.2	8.9	6.5	6.3	6.2
Yemen	-2.2	-4.5	-6.3	-6.9	-5.4	-5.0
Current Account Balance	12.7	18.4	18.4	14.8	11.6	9.8
<i>(Percent of GDP)</i>						
Algeria	14.5	9.9	5.9	0.4	-3.0	-2.9
Bahrain	5.9	11.2	7.2	7.8	7.0	6.4
Iran, Islamic Republic of	5.9	11.0	6.6	7.5	4.2	1.7
Iraq	...	12.0	6.7	-0.8	3.0	2.4
Kuwait	30.7	43.6	45.5	40.5	40.8	38.6
Libya	25.4	9.1	29.1	13.6	-27.1	-20.9
Oman	8.8	15.8	13.3	11.9	9.9	5.6
Qatar	19.1	30.6	32.7	30.9	27.1	23.2
Saudi Arabia	15.5	23.7	22.4	17.7	15.1	12.4
United Arab Emirates	8.0	14.7	18.5	16.1	11.1	11.8
Yemen	0.7	-3.0	-1.7	-3.1	-1.3	-1.1

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

Note: Variables reported on a fiscal year basis for Iran (March 21/March 20) and Qatar (April/March).

¹ Central government.

² Central government and National Development Fund excluding Targeted Subsidy Organization.

³ Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.

2. MENAP Oil Importers: Slow Recovery and Modest Prospects Call for Reform

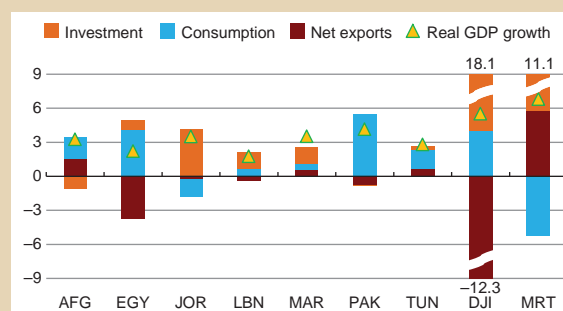
Continued sociopolitical and security tensions, high public debt, and deep-rooted structural impediments continue to dampen the economic impetus provided by improvements in the external environment and progress in domestic political transitions—leaving growth expectations, broadly unchanged from the May 2014 Regional Economic Outlook (REO) Update, at 3 percent in 2014 and rising to 4 percent in 2015. Intensifying regional conflicts and rising geopolitical tensions augment downside risks. Progress is being made in clawing back inefficient generalized subsidies and rechanneling them to support growth through better-targeted social safety nets for the poor and growth-generating investment. Nevertheless, continued fiscal consolidation is needed to put public debt on a sustainable path and increase buffers for dealing with adverse shocks. Greater exchange rate flexibility, in some cases, would support the recovery and improve competitiveness. Beyond the near term, improved security and deep structural reforms—especially in education, the business environment, and labor market efficiency, supported by continued stabilization efforts and stepped-up international assistance—are needed to raise the region’s potential growth rates, create much-needed jobs, and improve living standards and inclusiveness.

Fragile Confidence Constrains Recovery

Recently advanced political transitions are supporting a modest recovery but are overshadowed by regional conflicts. Since the Arab Spring, some countries have established new constitutions, and several have held elections. Many, though not all, governments now have the multiyear horizons needed to enact reforms for economic growth and jobs—albeit with gradual implementation, given the challenges of building strong public consensus and maintaining political stability. However, the conflict in Syria continues to take a large humanitarian toll and disrupts economic activity. It is also contributing to a political impasse in Lebanon, where the president’s office has been vacant since May. More broadly, intense conflicts in the region threaten wider destabilization. Security concerns fueled by these conflicts, and social unrest on the back of still-high unemployment, social inequities (Annex IV), and limited social safety nets (Box 2.1) undermine the nascent stability the political transitions have achieved.

Prepared by Pritha Mitra, with research assistance by Gohar Abajyan.

Figure 2.1
Consumption and Investment Drive Contributions to Real GDP Growth
(Percent, 2014)



Sources: National authorities; and IMF staff calculations.

Weak confidence weighs on domestic demand (Figure 2.1). Private investment is deterred by regional, sociopolitical, and security uncertainties. Conflicts in Syria, Iraq, and Gaza weigh on confidence in Lebanon and Jordan, where large inflows of refugees strain already limited resources (May 2014 REO Update). These uncertainties are compounded by structural and institutional weaknesses, credit risks stemming from high nonperforming loans (NPLs), high public debt, and largely unresolved structural problems, including electricity supply disruptions in Djibouti, Egypt,

Box 2.1

Better Protection for the Poor in MENA

In MENA, efficiency and cost concerns over the use of generalized subsidies as a social protection tool are highlighting the urgent need to establish sustainable targeted social safety net programs that deliver for the poor and vulnerable.

Targeted social safety nets (SSNs) can reduce poverty and support inclusive growth. SSNs include cash, near-cash (for example, food stamps), and in-kind transfers (for example, food). Well-designed programs reduce poverty by providing reliable support to poor and vulnerable households. They can also help achieve social objectives when conditioned on recipients' actions (for example, children's school attendance) and can be easily scaled up during crises. Mexico expanded its temporary employment program by 900,000 people in four years in response to natural disasters.

MENA countries devote a relatively small share of their government budgets to targeted SSNs. They spend less and have lower coverage of the poor than most emerging market and developing countries (Figure 2.1.1). MENA spends on average 0.7 percent of GDP on SSNs, compared with an average of 1.6 percent of GDP in developing and emerging countries. Several MENA countries spend more on subsidies than on all other social services.

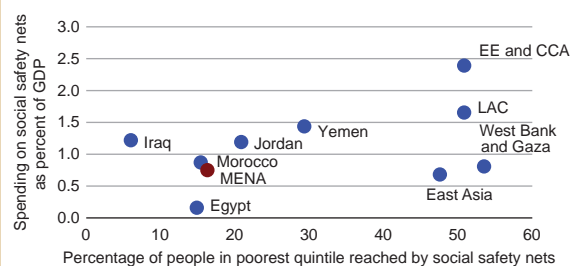
Existing SSN systems in MENA are generally not effective in reducing poverty:

- SSNs are fragmented, with a large number of small programs, each with its own targeting mechanism.
- Limited administrative capacity undermines the effectiveness of many programs and facilitates waste and corruption.
- Targeting mechanisms are mostly categorical (for example, based on geographical location), resulting in leakages and exclusion of deserving beneficiaries. Means testing (for example, in Lebanon and West Bank and Gaza) is the exception, not the rule.
- Existing programs provide limited opportunities for graduation of beneficiaries, promoting a dependency culture and limiting incentives to work.

Steps toward better systems—cross-country experiences point to two priorities for improving SSNs in MENA:

- SSNs should be better funded, drawing partly (as for other social spending) on savings generated from subsidy reform; for example, Jordan created a cash transfer program when it reduced subsidies.
- Greater effectiveness can be achieved by consolidating programs (for example, Brazil consolidated several programs into the *Bolsa Familia*); improving coverage, targeting mechanisms, administrative capacity, and service delivery (for example, payments through cash cards in Brazil, cell phones in Kenya, and biometric cards in South Africa); developing unified beneficiary registries (as in Brazil, Lebanon, and the Philippines); and establishing monitoring and evaluation mechanisms (Behrendt and Hagemeyer 2009; Gentilini, Honorati, and Yemtsov 2014; Grosh and others 2008).

Figure 2.1.1

Social Safety Net Coverage and Cost in MENA and Other Regions

Source: Silva, Levin, and Morgandi (2012).

Note: EE = emerging Europe; LAC = Latin America and the Caribbean.

Box 2.1 (concluded)

Specific steps to improve SSNs will depend on existing systems and country priorities (Table 2.1.1). In particular, a country's income level and government objectives define the scope of its SSN systems. Support from the World Bank and other international financial institutions can play a crucial role in reaching these goals.

Table 2.1.1. Next Steps

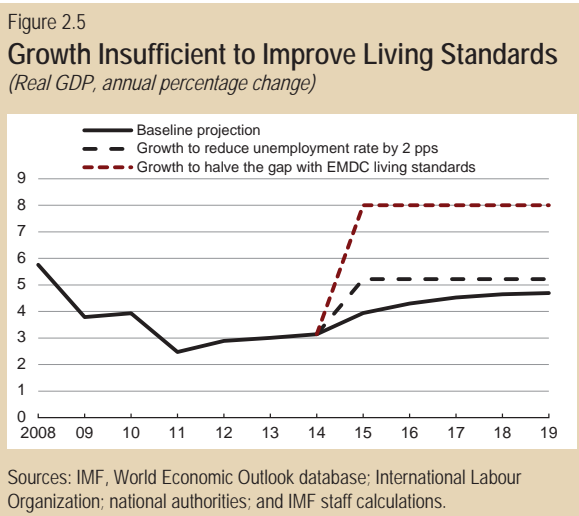
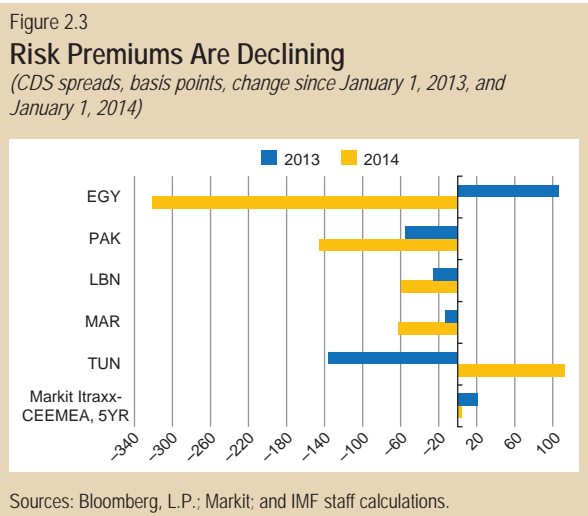
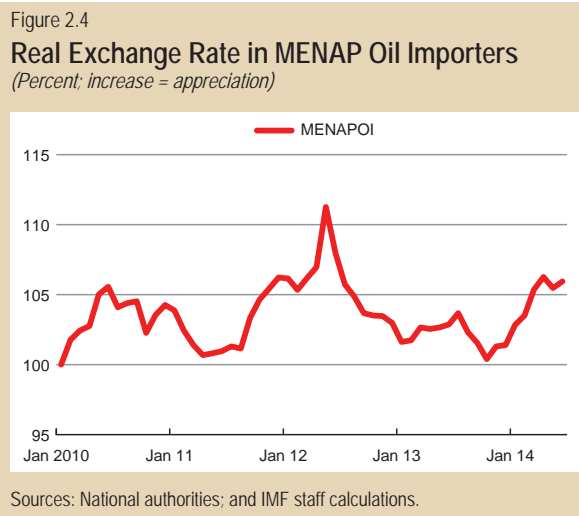
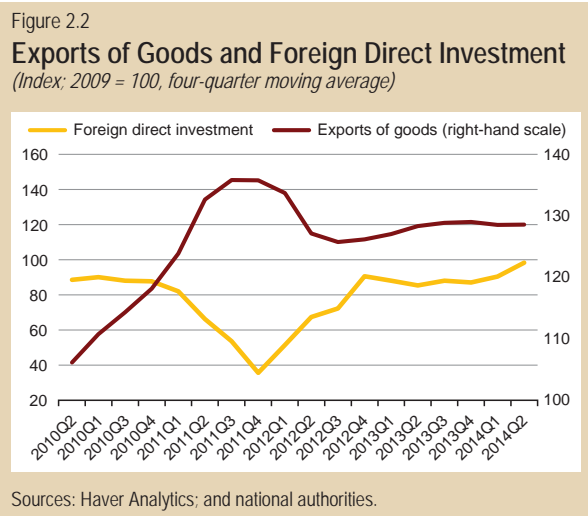
Initial conditions	<i>A few fragmented programs or no programs (e.g., Egypt, Mauritania)</i>	<i>Developed but underperforming targeted social safety nets (e.g., Jordan, Tunisia)</i>	<i>Promising flagship programs or pilots (e.g., Morocco, West Bank and Gaza, Yemen)</i>	<i>Well-developed social safety net system (e.g., Armenia, Georgia)</i>
Priority	<ul style="list-style-type: none"> • Develop a safety net strategy/ identify main goals of SSNs • Start with small-scale/pilot programs targeted at a subset of the poor • Use simple targeting systems focused on needs and transparent selection of beneficiaries • Start setting up infrastructure for implementing SSN programs (e.g., an implementing agency) or leverage already existing infrastructure 	<ul style="list-style-type: none"> • Continue or start developing a safety net strategy • Carry out or continue an inventory of programs to identify overlaps and redundancy • Fine-tune existing programs to improve effectiveness • Scale up effective programs, drop redundant programs • Seek to adopt relevant international best practices (e.g., beneficiaries' registries) 	<ul style="list-style-type: none"> • Strengthen safety net strategy • Continue developing unified registries for flagship programs • Continue developing infrastructure to monitor program performance • Link registries to improve targeting and eliminate overlaps 	<ul style="list-style-type: none"> • Monitor program performance • Converge to international best practices, further improve coverage, control abuse and error, and improve "graduation" procedures • Strengthen evaluation of program performance

Sources: Grosh and others (2008); Silva, Lenin, and Morgandi (2012); and Isik-Dikmelic (2012).

Lebanon, and Pakistan. Despite the drag from fiscal consolidation, domestic demand is sustained by increased public investment spending, partly financed by donors. Large public sector wage bills and remittance inflows from the GCC and Europe help support consumption amid high unemployment.

The gradual global recovery, coupled with initial progress in structural reforms, supports

a modest pick-up in external activity. Slowly reviving internal demand in Europe and solid GCC activity—the region's two major trading partners—are sustaining a measured but steady recovery of exports and foreign direct investment (FDI) (Figure 2.2), as well as tourism. In Morocco, structural reforms have also brought substantial FDI and export production in high-value-added industries such as cars and aeronautics. Likewise, in Pakistan, initial electricity supply improvements have



helped manufacturers respond to increased export demand. Manufacturing activity and FDI also show signs of recovery in Egypt. Strengthened mining and agricultural capacity has buoyed confidence and growth in Mauritania, as have large-scale infrastructure investment and strong port activity in Djibouti. Thanks to these improvements, stock markets are strengthening and risk premiums are declining (Figure 2.3); Pakistan made its first international bond issue in seven years. Nonetheless, serious security incidents are still keeping tourism away from Egypt, Lebanon, and Tunisia, and hampering Egyptian gas exports. Large import bills, reflecting still-high levels of global food and energy prices and, also, real exchange rate appreciation (Figure 2.4), partly offset gains from higher exports.

Over the near term, growth will remain modest. Real GDP growth is forecast to remain

at about 3 percent in 2014 and rise to 4 percent in 2015. A strengthening global recovery, especially in Europe, and initial structural reforms lowering production costs should continue to support export growth. Further increases in public spending on infrastructure, health care, and education will complement these reforms and bolster emerging confidence, nurturing private investment activity and jobs (Box 2.2). However, absent deeper and sustained structural reforms, these improvements will be insufficient to make a dent in the region’s persistently high unemployment and raise living standards. In fact, sustained growth of about 8 percent would be needed over the medium term to halve the gap in living standards between MENAP oil importers and other emerging market and developing countries (Figure 2.5; Annex IV). On these

Box 2.2

Impact of Fiscal Measures on Jobs in MENAP Oil-Importing Economies

Four years after the Arab Spring, MENAP oil-importing economies are struggling to create jobs amid weak economic recovery while consolidating their fiscal positions to put debt on a sustainable path. In the near term, consolidation reduces domestic demand and thus negatively affects output and jobs. Recent work finds that during extended periods of weak growth, consolidation can prolong unemployment, resulting in skills depreciation and prompting discouraged workers to leave the labor force.¹ How can MENAP oil importers design fiscal consolidation programs to minimize the adverse impact on jobs?

Reallocation of spending from inefficient generalized energy subsidies toward growth-creating spending on infrastructure, health care, and education can mitigate adverse effects of fiscal consolidation on jobs.^{2,3} Many MENAP oil importers are pursuing consolidation programs that reduce subsidy spending (Figure 2.2.1). Such programs may reduce job creation by lowering consumption and domestic demand over the near term. Yet, in Egypt, Jordan, Pakistan, and Tunisia, they have created room in the budget for increased investment in energy-efficient technologies, infrastructure, education, and health care, all of which support job creation. Such spending also improves the business environment and enhances workers' skills, leading to higher productivity and providing a further boost to job creation.

Revenue measures, such as raising property, corporate, and personal income taxes for high-income segments of the population, and the elimination of certain tax exemptions, have little impact on jobs in the near term. This is especially true in the MENAP oil importers, where these taxes are generally low compared to other emerging and developing economies (Figure 2.2.2). Furthermore, tax reforms can create a more equitable tax environment, improve incentives for doing business, and encourage legitimization of informal businesses, causing business expansion and creation of jobs. Reducing labor tax wedges can also raise employment, but this measure tends to be less effective when informality is high, as is the case in the MENAP oil importers (October 2014 *Fiscal Monitor*).

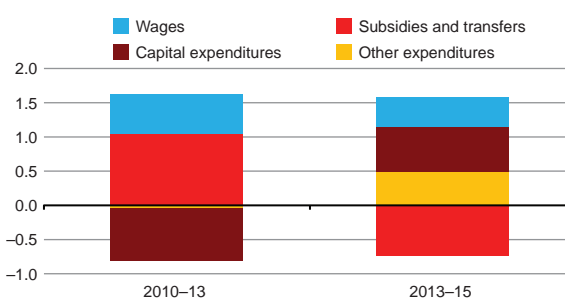
Prepared by Pritha Mitra.

¹ The result is reduced potential growth and lower job creation over the medium term (October 2014 *Fiscal Monitor* and Dell'Erba, Koloskova, and Poplawski-Ribeiro forthcoming). These effects can be partly offset by the positive impact of fiscal consolidation on growth through lower risk premiums and greater bank financing available to firms (in cases where public debt was largely financed by domestic banks).

² Baunsgaard and others (2012) review the literature on advanced economies. Several studies on emerging Europe find government spending measures to have a larger medium-term impact on growth than revenue measures (Haug, Jedrzejowicz, and Aznajderska 2013; Mitra and Pogoshyan forthcoming; Šimović and Deskar-Škrbić 2013).

³ In general, fiscal adjustment based on revenue mobilization efforts may be preferable to spending cuts in emerging and developing economies (October 2014 *Fiscal Monitor*)—especially when spending rigidities and low levels of public outlays imply that cuts fall disproportionately on capital and other productive public spending. However, this point is less applicable to the case of MENAP oil importers because these countries currently tend to consolidate their budgets by cutting spending on inefficient generalized subsidies.

Figure 2.2.1

Change in Revenue and Expenditure¹
(Percent of GDP)

Sources: National authorities; and IMF staff calculations.

¹Excludes Syria.

Box 2.2 (concluded)

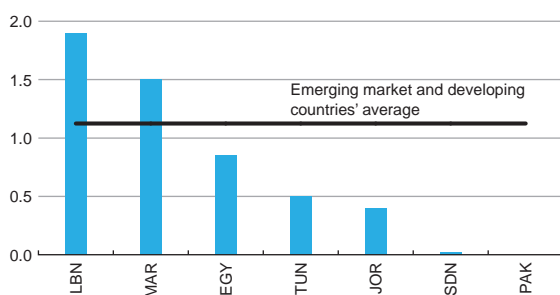
Fiscal savings can also be used to support labor market reforms, which aim to improve job placement services and reduce skills mismatches (Annex I). For example, in the MENAP oil importers, some savings from energy subsidy reforms can finance job placement services, including centralized computer matching services and apprenticeships. The mismatch between employees' skills and employers' needs, especially in vocational, language, computer, and management skills, can be addressed through targeted training programs. Governments can collaborate with the private sector in the design and financing of these programs. More broadly, public-private consultations can better align the design of tertiary and vocational education with employers' needs.

Figure 2.2.2

Property, Personal, and Income Taxes in MENAP Oil Importers

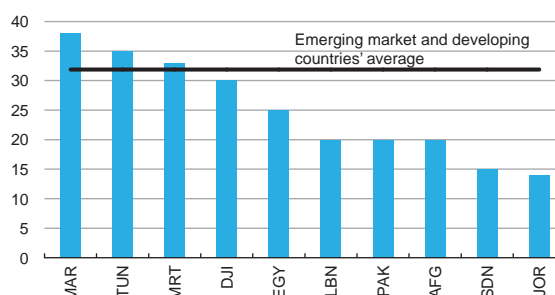
Property Tax Revenue

(Percent of GDP)



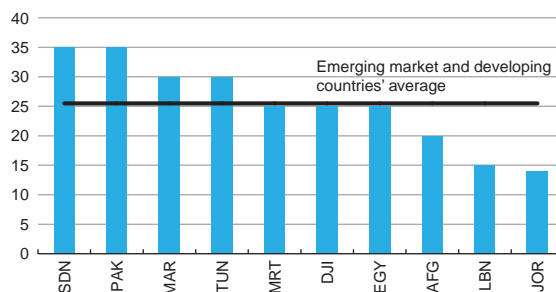
Personal Income Tax Rates

(Percent)



Corporate Income Tax Rates

(Percent)



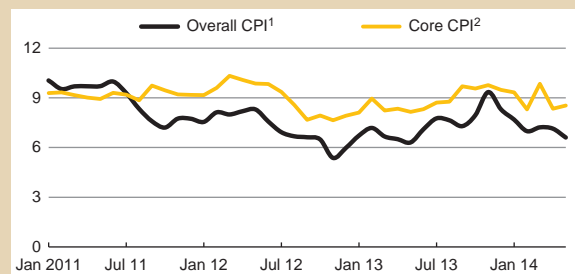
Sources: National authorities; KPMG; Deloitte; and IMF staff calculations.

indicators, which can be part of the explanation for social unrest, the MENAP oil importers fare poorly in comparison with other emerging and developing regions.

Inflation has stabilized, though at elevated levels. Over the past three years, declining global

food and energy prices, weak economic activity, growth below potential, and, in some cases, monetary tightening, have reduced inflation pressures (Figure 2.6). Nevertheless, reduced energy subsidies, higher spending on public sector wages, monetization of fiscal deficits, and, in some cases, accommodative monetary policies and exchange

Figure 2.6

Inflation Pressures Persist*(Consumer price inflation; 12-month moving average, percentage)*

Sources: Haver Analytics; and national authorities.

Note: CPI = consumer price index.

¹Excluding Djibouti, Mauritania, and Sudan.²Excluding Djibouti, Lebanon, Mauritania, Morocco, and Sudan.

rate depreciation (most recently in Egypt, Sudan, and Tunisia) as well as additional domestic demand from growing numbers of refugees (in Jordan and Lebanon) have sustained inflation. These trends are set to continue in 2015, keeping inflation at its current 9 percent level.

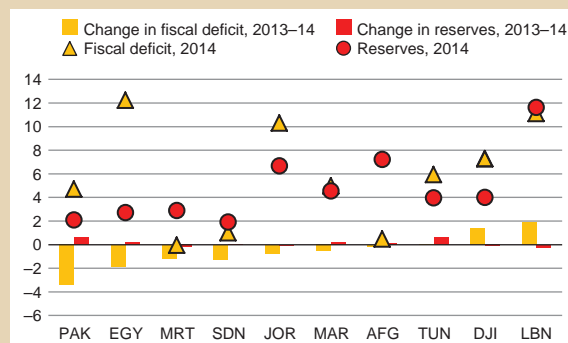
Downside Risks Are Elevated

The recovery is vulnerable to domestic and regional downside risks. Setbacks in political transitions, intensified social and security tensions, and larger spillovers from regional conflicts could undermine confidence, implementation of reforms, and macroeconomic stability. Spillovers from conflicts in Gaza, Iraq, Libya, and Syria could increase refugee inflows, disrupt trade, and raise oil prices—spurring inflation and raising debt. The withdrawal of international troops from Afghanistan could slow domestic demand and aggravate security tensions there as well as in Pakistan. On the upside, faster progress in reform implementation could boost domestic confidence and economic activity.

External risks are also tilted to the downside.

Lower-than-expected potential growth or secular stagnation in advanced economies, particularly Europe, or slower growth in the GCC or other emerging markets could reduce growth in MENAP oil importers by slowing tourism, exports, and remittances. Countries with limited exchange rate flexibility may face higher domestic

Figure 2.7

Fiscal Deficit and Reserves*(Percent of GDP and months of imports, respectively)*

Sources: National authorities; and IMF staff calculations.

interest rates as global monetary conditions tighten further,¹ though limited international capital market exposure should generally contain risks of capital flow reversal. On the upside, stronger-than-expected trading partner growth could boost economic activity.

Gradually Declining External and Fiscal Vulnerabilities

Resilience to external shocks is improving at varied paces across the region. International reserve coverage recently increased in Egypt and Pakistan but is still low and susceptible to downside risks (Figure 2.7). Reserve coverage also improved in Jordan and remains high in Lebanon, despite import pressures to feed more refugees. In Jordan, additional pressures arise from the substitution of expensive fuel imports for lower-than-expected Egyptian gas supplies used in electricity production.

Differences in reserve coverage largely reflect variation in current account developments. The region's current account deficits are improving but the pick-up in exports, and the extent to which weak domestic investment suppresses import

¹ For more details on the impact of U.S. monetary policy normalization on MENAP oil importers, see the November 2013 *Regional Economic Outlook* (REO) and the May 2014 REO Update.

growth, varies across countries. In Djibouti and Mauritania, the current account deficit is widening owing to large investment-related imports mostly financed by FDI. Sudan's external balances remain sensitive to South Sudanese oil transit fees and gold exports. Net capital flows and grants, which also shape reserves, vary across countries because of differences in financing from foreign governments (sizable in Afghanistan, Egypt, Jordan, Morocco, and Tunisia), borrowing from international financial institutions, FDI, external debt obligations, and international sovereign bond issues.

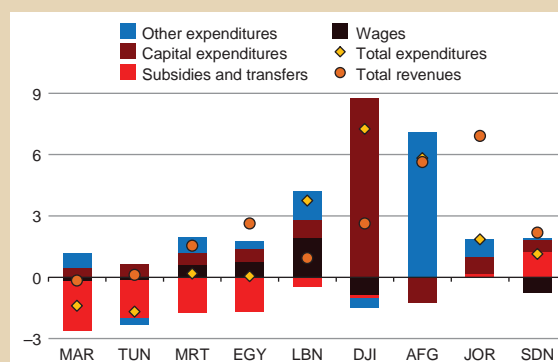
Significant fiscal consolidation is helping to contain high deficits and debt and gradually rebuild buffers. In the aftermath of the Arab Spring, many countries raised generalized subsidies and public wage bills to calm social unrest and ease the burden of elevated international food and energy prices. Combined with weak tax revenues and sometimes large quasi-fiscal activities, fiscal deficits and vulnerabilities soared. Deficits peaked in 2013, and national policymakers are bringing them down in 2014–15. The largest reductions are expected in Egypt (2½ percent of GDP) and Pakistan (3¾ percent of GDP).² In most cases, however, consolidation is slowing debt accumulation, though debt ratios and their servicing are still rising.

Fiscal consolidation measures largely target spending (Figure 2.8). The largest savings are from generalized energy subsidy reforms initiated in Egypt, Jordan, Mauritania, Morocco, Pakistan, Sudan, and Tunisia (Table 2.1). Wage bills are mostly being contained, but will widen in Lebanon if planned salary scale adjustments are implemented and in Mauritania if presidential campaign promises are enacted. Some savings from subsidy reforms have been channeled into better-targeted social protection for the poor (Box 2.1) and higher spending on infrastructure, health care, and education. Several revenue measures to broaden the tax base are under consideration for 2015. In the

² Pakistan's budget deficit in FY2012/2013 included a one-off clearance of power sector arrears of 1.4 percent of GDP.

Figure 2.8

Change in Revenue and Expenditure (Percent of GDP, difference between 2013 and 2015)



Sources: National authorities; and IMF staff calculations.

Table 2.1. Spending on Energy Subsidies

(Percent of GDP)

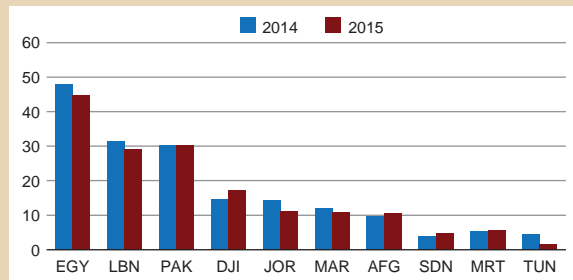
	Peak Spending, 2011–13	2014	Peak Year
Egypt	6.8	6.6	2012
Jordan	8.4	3.8	2012
Morocco	6.6	3.8	2012
Tunisia	3.7	2.9	2013
Pakistan	2.3	1.1	2012

Sources: National authorities; and IMF staff calculations.

meantime, improved economic activity is expected to lift tax revenues.

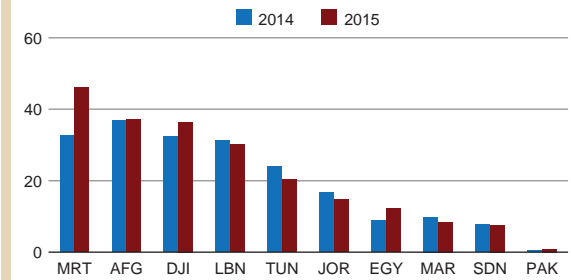
Financing needs loom large. Gross budgetary financing needs in the oil importers are large (Figure 2.9); they are particularly so in Egypt, Lebanon, and Pakistan, because of high deficits and short maturities of domestic Treasury bills. Domestic and official financing are expected to cover the bulk of these needs. Substantial bilateral donor financing, especially from the GCC to the Arab Countries in Transition (ACTs), is to continue (Box 2.3). Gross external financing needs, totaling US\$100 billion in 2015, are also substantial; they have risen by US\$15 billion since 2014 (Figure 2.10). They are projected to continue being financed from official sources, including IMF programs, as well as FDI and other private inflows—especially, in Lebanon, nonresident deposits. However, the previously described substantial domestic and external downside risks may endanger materialization of these inflows.

Figure 2.9
Fiscal Financing Needs¹
(Percent of GDP)



Sources: National authorities; and IMF staff calculations.
¹Sum of general government fiscal deficit (excluding grants) and general government external and domestic amortization.

Figure 2.10
External Financing Needs
(Percent of GDP)



Sources: National authorities; and IMF staff calculations.
Note: Current account deficit (excluding official current transfers) plus total external amortization (excluding nonresident deposits).

Box 2.3

Shifting Patterns in Official External Financing in MENAP Oil Importers

In the wake of the global financial crisis and the Arab Spring, fiscal and external imbalances in MENAP oil importers have widened considerably, raising their dependence on external financial assistance. The overall external aid from official sources has more than doubled since 2010 to partially meet the higher financing needs of recipient countries (Figure 2.3.1).

Official external financing from the G7 countries and international financial institutions has increased in absolute terms while remaining broadly unchanged as a percent of oil importers' GDP. Financing from regional donors, particularly the GCC countries, has risen sharply. The share of these countries in total disbursements rose from 5.5 percent in 2010 to 50 percent in 2013. The GCC countries' willingness to step up their assistance is welcome, as it helps support macroeconomic stability and diversifies the MENAP oil importers' sources of financing.

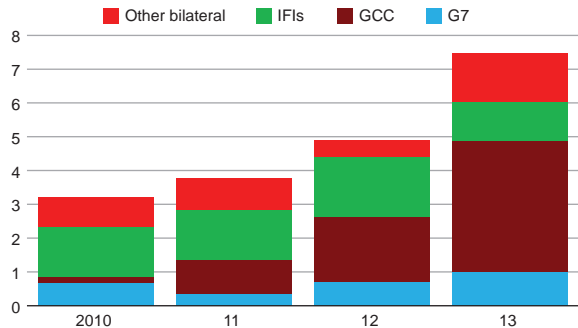
Almost nonexistent in 2010, 45 percent of G7 countries' official financial support to MENAP oil importers in 2013 came in the form of bond guarantees, with Jordan and Tunisia being the main recipients. A difficult fiscal situation in donor countries could have made bond guarantees less costly than loans in the short run, while providing the same benefit for recipient countries with market access.

Project financing has increased in importance in financing flows, in line with the increased role of regional donors. Political instability in some recipient countries and their limited ability to implement economic reforms may also have reduced the willingness of donors to provide grants and unconditional support.

As the financing needs in most MENAP oil importers are projected to remain elevated, it would be important for the international community to maintain—and in some cases increase—its financial support. Tying this assistance more closely to progress in structural reforms and making it more predictable would improve the MENAP oil importers' medium-term economic prospects and resilience to shocks, while reducing their dependence on external support.

Prepared by Anja Baum, Christoph Duenwald (team lead), and Tokhir Mirzoev.

Figure 2.3.1
Official External Financial Assistance to MENAOI
(Percent of GDP)



Source: IMF staff calculations.
Note: IFIs = international financial institutions. Data for G7 include bond guarantees.

Fiscal, Monetary, and Exchange Rate Policies: Going Beyond Macroeconomic Stability

Fiscal consolidation is necessary to buttress and strengthen confidence. Lower fiscal deficits carry multiple benefits: they put public debt ratios on sustainable paths and relieve current account and external financing pressures, reducing external vulnerabilities. Policy buffers are also rebuilt, confidence fostered, high-risk premiums in international and domestic markets eased, and domestic credit made available for the private sector. These goals can be achieved by continuing the gradual fiscal consolidation path on which most MENAP oil-importing countries are already moving. Their gradual progress along this path—financing permitting—and the measures that comprise it, are successfully containing adverse effects on near-term growth. Maintaining public support for continued consolidation will require measures that limit the negative impact on the poor and reduce social inequities.

Spending reorientation is needed to sustain recent gains from fiscal consolidation and promote job creation and equity. It will be important for policymakers to resist political or social pressures to delay—or reverse, if already implemented—generalized energy subsidy reforms. It will be equally important to ensure that stepped-up, targeted social safety nets are in place to cushion the impact on the poor (Box 2.1). Reducing unsustainable subsidy bills will mitigate underlying fiscal vulnerabilities and will help preempt a larger and more painful adjustment later. In addition, channeling part of the savings to efficient spending on infrastructure, health care, and education creates jobs in the near term, boosts productivity and growth potential, and elevates equity. Similarly, enhancing active labor market policies can improve social outcomes. Gradual public sector workforce rationalization, through comprehensive civil service reforms, would also contribute to these gains.

Greater focus on tax policy is needed to improve the business environment and equity, while

raising revenues. Current plans to broaden the tax base—through reduced exemptions and deductions—and tax and customs administration reforms will face challenges from vested interests. But they should be followed through, to level the playing field across sectors and firms. Raising excises on luxury goods (as some countries have already done), introducing property taxes, and raising income tax progressivity would bolster equity and raise revenues, with limited impact on growth.³

Changes in public sector financing can complement and support improvements in financial sector regulation. Banking systems appear generally sound, with strong capital adequacy ratios and liquidity buffers. NPL ratios are high but gradually declining. Restructuring of problem banks in Tunisia is progressing. However, across the region, vulnerabilities persist because of high state ownership and weak corporate governance of public banks. Banking and financial sector supervision should be strengthened, with tighter rules on classification of NPLs, loan restructuring, transparency, data provisioning requirements, and improved macroprudential tools. At the same time, changes in public sector financing, including regular domestic bond issuances with longer maturities, market-determined yields, and a broader investor base, would reduce rollover risks and deepen financial markets. The recently increased frequency of some MENAP oil importers' international sovereign bond issuance also enhances financial integration with the rest of the world, supports reserve accumulation, increases credit available to the private sector, and reduces banking system risks associated with high exposure to sovereign debt.

Greater exchange rate flexibility, in some countries, would enhance growth and competitiveness. As inflation declines, countries with overvalued exchange rates can raise competitiveness through greater exchange rate flexibility. Shifting the focus of monetary policy

³ For a detailed assessment of fiscal policy options for ACTs, see IMF (2014e).

away from exchange rate stability requires the adoption of stronger monetary transmission mechanisms through expansion of interbank markets and active liquidity management, and gradual widening of exchange rate bands. In some cases, accommodative monetary policy could support growth, but poorly anchored inflation expectations and elevated, albeit declining, inflation would pose challenges. If upside inflationary risks emerged, tighter monetary policy measures—coordinated with fiscal policy—would be needed.

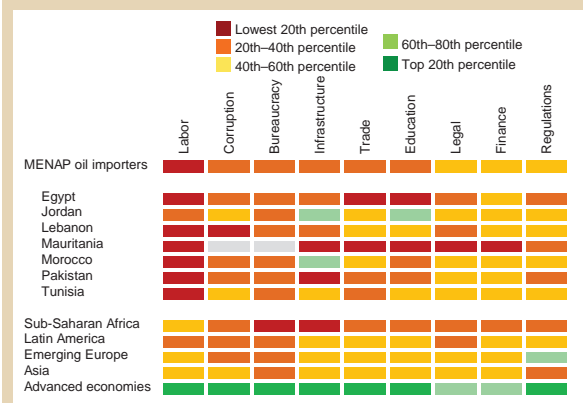
Lackluster Medium-Term Prospects

Absent deeper structural reforms, medium-term growth is expected to fall short of rates needed for strong job creation and improved living standards. The MENAP oil importers' medium-term growth lags behind that of other emerging and developing regions, and is declining (Annex I). Low employment and investment rates are behind this decline. High unemployment, and its discouraging effect on workers, lowers labor force participation rates over time. In some countries, especially the ACTs, discouraged workers join the informal economy. Recent low investment rates have caused deterioration of the capital stock. These developments, together with low productivity, explain the region's disappointing growth potential in comparison with faster-growing emerging and developing regions.

This lackluster growth reflects structural rigidities, institutional weaknesses, and barriers to trade and investment. Inflexible labor markets, educational deficiencies, widespread perceptions of corruption, ineffective legal systems, burdensome bureaucracy and regulations, poor physical and financial infrastructure, and a lack of trade integration within the region and with the rest of the world undermine competitiveness, productivity, and, ultimately, growth prospects (Figure 2.11). Addressing these challenges is necessary to stimulate substantial growth and bring living standards up to the level of other emerging market and developing economies (Annex I). By the

Figure 2.11

Raising Medium-Term Growth and Job Prospects Requires Structural Reforms¹



Sources: World Bank; World Economic Forum; PRS Group; and IMF staff calculations.

¹A country that performs poorly relative to its global peers in the structural areas listed at the top of the table is ranked in the lowest 20th percentile (colored red). Countries that perform a little less poorly relative to peers are ranked in the 20th to 40th percentiles (colored orange). Those that perform better than the majority of their peers are ranked in the top 20th percentile (colored green).

same token, if reforms are not accelerated, growth, unemployment, and living standards could worsen, fueling sociopolitical tensions and resulting in further economic strife.

Structural Transformation to Boost Growth

A deep, multifaceted transformation is needed to spark economic dynamism in the private sector, leading to higher growth potential, more jobs, and less inequity.⁴ At the same time, the state's economic role should focus on providing good governance, basic services, and social protection. Reaching these goals is challenging in the current environment where sociopolitical tensions and fiscal and external vulnerabilities linger amid significant downside risks.

⁴ For a detailed assessment of reform needs in ACTs, see IMF (2014e) and the proceedings of the conference "Building the Future: Jobs, Growth, & Fairness in the Arab World" in Amman, Jordan, May 2014 (<http://www.imf.org/external/np/seminars/eng/2014/act/index.htm>).

To enable this transformation, policymakers should articulate and implement a bold and credible structural reform agenda that enjoys broad public support. As political transitions advance, setting reforms in motion is important because it signals policy direction, and because some reforms take time to affect economic outcomes. A strong package of structural reforms—supported by gradual fiscal consolidation and efficient monetary and exchange rate policies, adequate external financing, and solid communication strategies—is needed. The challenge lies in identifying and prioritizing key reforms across a multitude of areas while addressing country-specific needs. Giving priority to reforms in the business environment, education, and labor market efficiency will be critical to boosting potential growth (Annex I) and fostering equity (Annex IV).

Reducing persistently high unemployment, bringing more youth and women into the labor force, and improving the quality of education will increase potential growth. Regulatory reforms facilitating hiring and skills-building would lead to more efficient labor allocation, better compensation, and more rapid job creation. Many on the job market have attained secondary or tertiary education levels but do not have the skills demanded by firms. Governments can work with private firms to reform vocational training and align skills with job market needs. Over the longer term, expanding the size and diversity of the region's labor force by raising youth and women's participation could substantially boost economic potential. In addition, reducing large energy subsidies helps reorient production away from energy-intensive industries toward more labor-intensive production.

Tackling impediments in the business environment and financial market development could revive capital accumulation. Security tensions, poor investor protection, burdensome regulations, and low-quality infrastructure raise the cost of doing business. Dominant public sector influence in the economy leads to perceptions of

corruption and deters investors. Some measures that could simultaneously address these challenges include streamlining business regulations, contract enforcement, and affirmation of investors' rights. Raising the quality and efficiency of public infrastructure (Annex II)—especially in electricity generation and distribution—and opening greater access to finance for small and medium-sized enterprises (Annex III) are also important.

Deeper international trade integration complements the structural reforms in boosting lagging productivity. Together, these factors support more robust competition and innovation, leading to competitive cost structures and opening the door for vertical integration in global manufacturing supply chains. Positive spillovers into productivity growth can be substantial, especially in countries with highly qualified technical workers and technologically sophisticated firms.

International Support

Support from the international community can facilitate economic transformation and shore up macroeconomic stability. Bilateral and multilateral official financing can help alleviate fiscal pressures, and provide an opportunity for more gradual and less painful macroeconomic adjustment while countries build consensus for implementation of structural reforms. Official financing can also catalyze additional private financing, especially where countries are already moving forward with challenging reforms. However, absent sound reforms, financing only delays the inevitable unwinding of underlying imbalances—which may be abrupt and more painful in the future. Recent IMF arrangements in MENAP oil-importing economies, committing more than US\$15 billion in Jordan, Morocco (a credit line against external shocks), Pakistan, and Tunisia, aim to support countries' reform efforts and macroeconomic adjustment. The international community can also provide support through technical advice, other capacity-building initiatives, and enhanced access to export markets for the region's products and services.

MENAP Oil Importers: Selected Economic Indicators

	Average						Projections	
	2000–10	2009	2010	2011	2012	2013	2014	2015
Real GDP Growth	5.0	3.8	3.9	2.5	2.9	3.0	3.1	3.9
<i>(Annual change; percent)</i>								
Afghanistan, Republic of	...	20.6	8.4	6.5	14.0	3.6	3.2	4.5
Djibouti	3.5	5.0	3.5	4.5	4.8	5.0	5.5	5.5
Egypt	5.0	4.7	5.1	1.8	2.2	2.1	2.2	3.5
Jordan	6.1	5.5	2.3	2.6	2.7	2.9	3.5	4.0
Lebanon	5.1	10.3	8.0	2.0	2.5	1.5	1.8	2.5
Mauritania	3.7	-1.2	4.3	4.0	7.0	6.7	6.8	6.8
Morocco	4.6	4.8	3.6	5.0	2.7	4.4	3.5	4.7
Pakistan	4.5	0.4	2.6	3.6	3.8	3.7	4.1	4.3
Sudan ¹	7.3	4.7	3.0	-1.2	-2.7	3.3	3.0	3.7
Syrian Arab Republic ²	4.3	5.9	3.4	...	...	...	...	...
Tunisia	4.4	3.1	2.6	-1.9	3.7	2.3	2.8	3.7
West Bank and Gaza ³	2.6	7.4	9.3	12.4	6.3	1.9	-3.7	4.4
Consumer Price Inflation	6.6	10.6	8.8	10.3	9.4	9.1	9.9	9.6
<i>(Year average; percent)</i>								
Afghanistan, Republic of	...	-6.8	2.2	11.8	6.4	7.4	6.1	5.5
Djibouti	3.5	1.7	4.0	5.1	3.7	2.4	3.2	4.0
Egypt	7.9	11.8	11.2	10.1	7.1	9.5	10.9	13.4
Jordan	3.8	-0.7	5.0	4.4	4.6	5.6	3.0	2.6
Lebanon	2.7	1.2	5.1	7.2	5.9	3.2	3.5	4.0
Mauritania	6.3	2.1	6.3	5.7	4.9	4.1	3.3	4.2
Morocco	1.8	1.0	1.0	0.9	1.3	1.9	1.1	2.0
Pakistan	7.4	17.6	10.1	13.7	11.0	7.4	8.6	8.0
Sudan ¹	9.1	11.3	13.0	18.1	35.5	36.5	38.0	20.6
Syrian Arab Republic ²	4.9	2.8	4.4	...	...	...	...	...
Tunisia	3.2	3.5	4.4	3.5	5.6	6.1	5.7	5.0
West Bank and Gaza ³	4.0	2.8	3.7	2.9	2.8	1.7	2.6	2.8
General Government Overall Fiscal Balance	-4.9	-5.3	-6.0	-7.1	-8.4	-9.5	-7.5	-6.9
<i>(Percent of GDP)</i>								
Afghanistan, Republic of ⁴	...	-1.8	0.9	-0.6	0.2	-0.6	-0.5	-0.8
Djibouti	-1.9	-5.2	-1.3	-1.4	-2.7	-5.9	-7.3	-10.5
Egypt	-7.3	-6.9	-8.3	-9.8	-10.5	-14.1	-12.2	-11.5
Jordan ⁴	-4.2	-8.9	-5.6	-5.7	-8.9	-11.1	-10.3	-6.0
Lebanon ⁴	-12.7	-8.2	-7.6	-5.9	-8.6	-9.2	-11.1	-12.0
Mauritania ^{4,5}	-0.7	-5.1	-2.0	-1.5	2.8	-1.1	0.1	0.2
Morocco ⁴	-3.7	-1.8	-4.4	-6.7	-7.4	-5.5	-5.0	-4.3
Pakistan	-3.9	-5.0	-5.9	-6.9	-8.4	-8.1	-4.7	-4.4
Sudan ¹	-1.2	-5.1	0.3	0.2	-3.7	-2.3	-1.0	-1.2
Syrian Arab Republic ²	-2.7	-2.9	-7.8	...	...	...	...	...
Tunisia ⁶	-2.3	-2.3	-0.4	-3.0	-4.7	-5.9	-5.9	-4.1
West Bank and Gaza ³	-28.6	-30.1	-17.8	-16.9	-16.5	-13.9	-16.5	-15.5
Current Account Balance	-1.7	-4.8	-3.2	-3.5	-5.6	-4.5	-3.5	-4.4
<i>(Percent of GDP)</i>								
Afghanistan, Republic of	...	1.9	3.1	3.1	3.9	4.3	4.8	0.1
Djibouti	-6.7	-9.3	-5.4	-13.7	-18.4	-23.8	-31.4	-35.0
Egypt	0.9	-2.3	-2.0	-2.6	-3.9	-2.7	-0.4	-4.0
Jordan	-4.2	-3.3	-5.3	-12.0	-15.4	-9.8	-10.0	-6.9
Lebanon	-13.3	-12.5	-13.3	-12.8	-12.7	-12.9	-12.7	-12.3
Mauritania	-15.6	-16.2	-9.4	-7.4	-32.4	-30.1	-26.8	-39.4
Morocco	0.1	-5.4	-4.1	-8.0	-9.7	-7.6	-6.8	-5.8
Pakistan	-1.3	-5.5	-2.2	0.1	-2.1	-1.1	-1.2	-1.3
Sudan ¹	-5.3	-9.6	-2.1	-0.4	-9.2	-8.6	-6.5	-6.3
Syrian Arab Republic ²	-0.4	-2.9	-2.8	...	...	...	...	...
Tunisia	-3.0	-2.8	-4.8	-7.4	-8.2	-8.4	-7.7	-6.6
West Bank and Gaza ³	-17.7	-12.0	-10.6	-23.6	-28.9	-18.0	-26.1	-31.4

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

Note: Variables reported on a fiscal year basis for Afghanistan (March 21/March 20) until 2011, and December 21/December 20 thereafter, and Egypt and Pakistan (July/June), except inflation.

¹Data for 2011 exclude South Sudan after July 9. Data for 2012 and onward pertain to the current Sudan.

²2011–15 data exclude Syria due to the uncertain political situation.

³West Bank and Gaza is not a member of the IMF and is not included in any of the aggregates.

⁴Central government. For Jordan, includes transfers to electricity company.

⁵Includes oil revenue transferred to the oil fund.

⁶Includes bank recapitalization costs and arrears payments.