Middle East and North Africa
Regional Economic Outlook

October 2014

Outline

Global Outlook

MENAP: Regional Themes, Outlook, and Risks

- Oil Exporters
- Oil Importers

An uneven global recovery continues

Real GDP Growth Projections

(Percent change from a year earlier)

	World	U.S.	Euro Area	Emerging markets	China	Russia
2014	**3.3**	**2.2**	**0.8**	**4.4**	**7.4**	**0.2**
Revision from Spring 2014	-0.3	-0.6	-0.3	-0.5	-0.2	-1.1
2015	**3.8**	**3.1**	**1.4**	**5.0**	**7.1**	**0.5**
Revision from Spring 2014	0.0	0.1	-0.1	-0.4	-0.2	-1.8

Source: IMF, World Economic Outlook, October 2014.

Downside risks have increased since last spring

Geopolitical risks (Middle East, Russia-Ukraine)

Slower growth in emerging markets

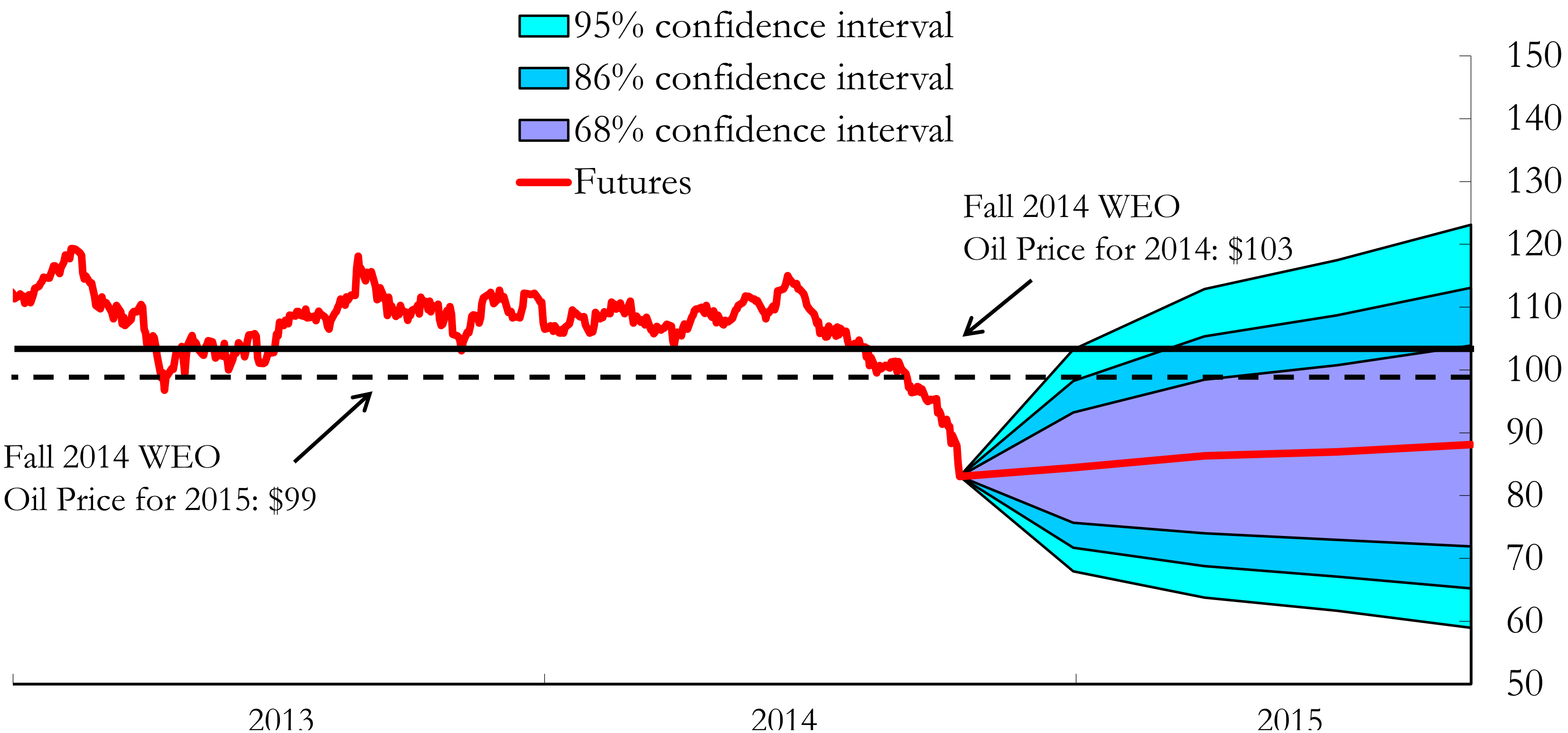
Lower potential growth and secular stagnation in advanced economies

Financial market volatility in response to normalization of monetary policy in advanced economies

Oil prices have declined considerably, yet risks are high in both directions

Brent Crude Oil Price[1]

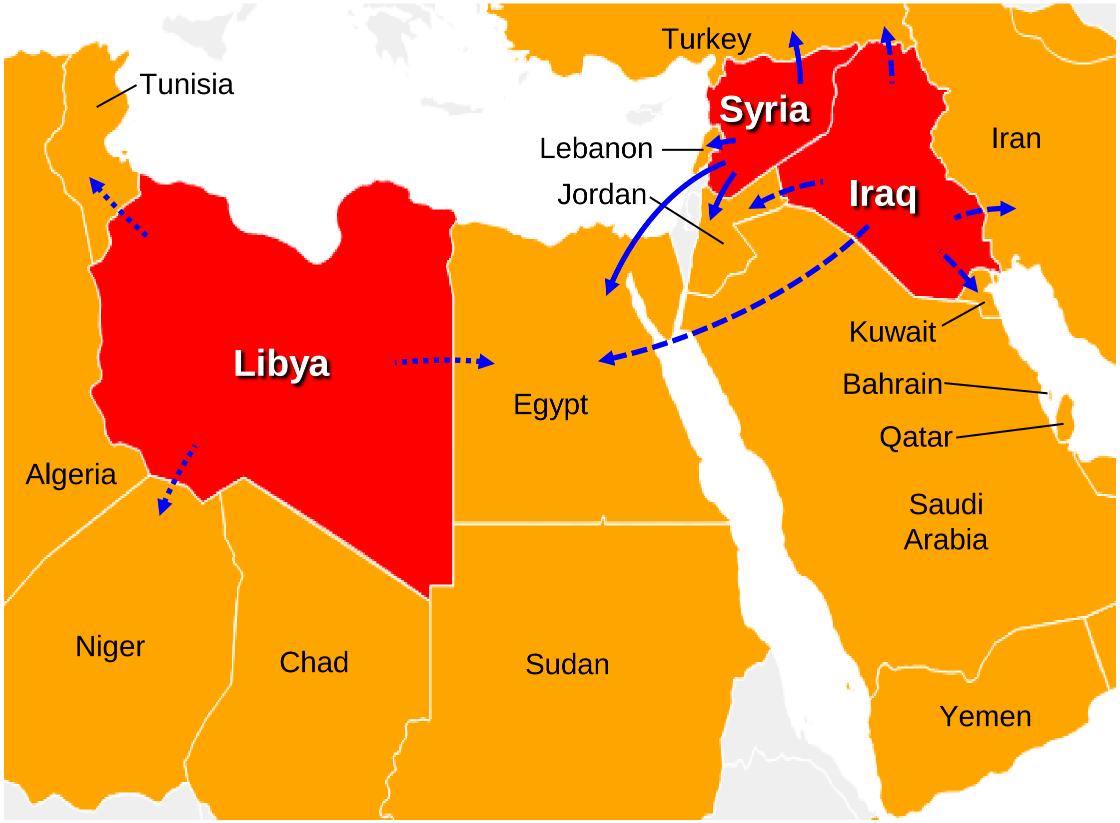
(U.S. dollars per barrel)



Sources: Bloomberg; and IMF Research Department staff calculations.

[1]Derived from prices of futures and options on October 15, 2014.

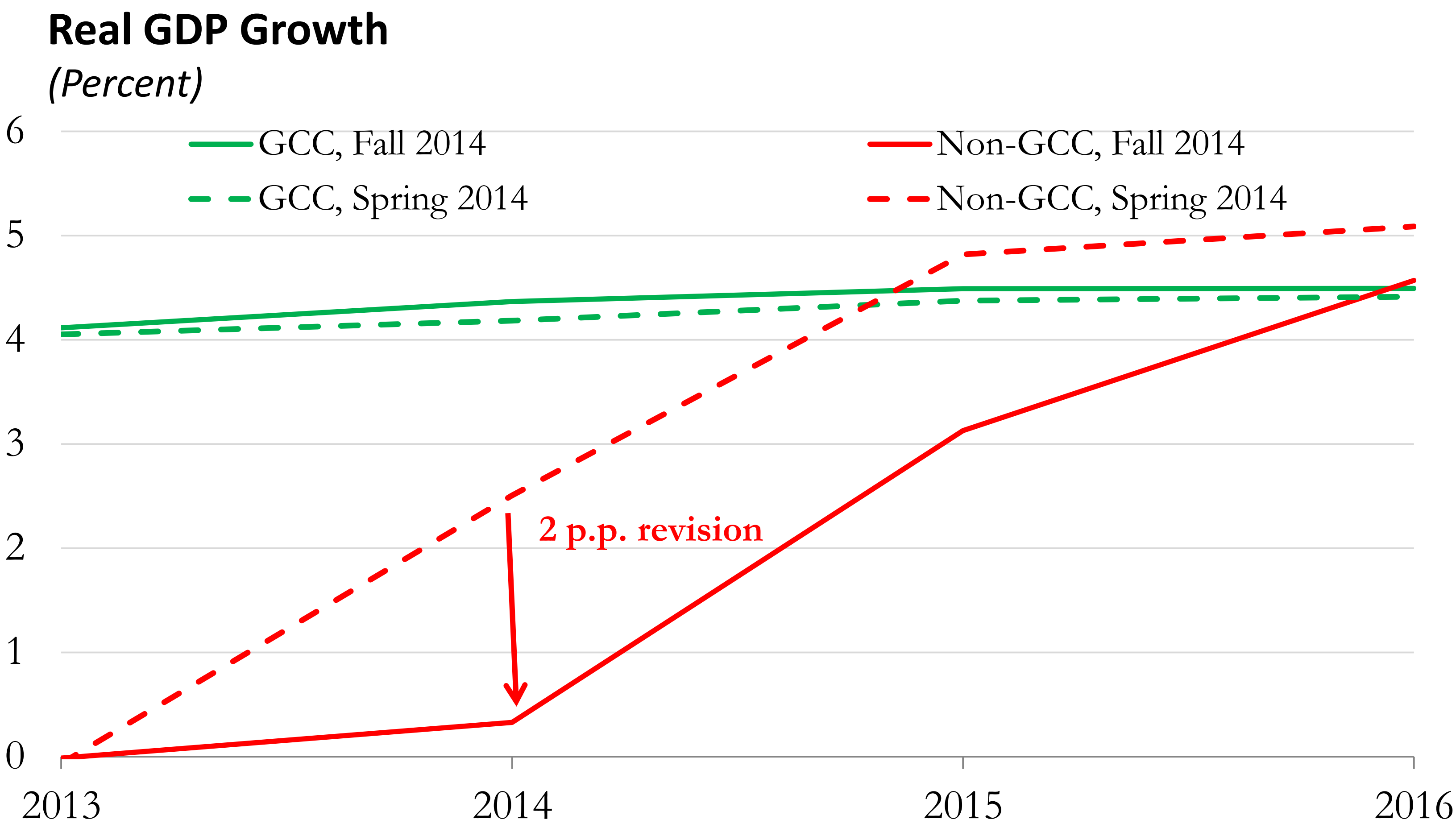
Deepening regional conflicts with substantial spillovers



- ❑ 11 million refugees and internally displaced persons
- ❑ Sectarian violence and political spillovers
- ❑ Disruptions to bilateral and transit trade
- ❑ Setbacks for tourism and investment

MENAP oil exporters

GCC growth steady, conflicts push down growth projections for non-GCC

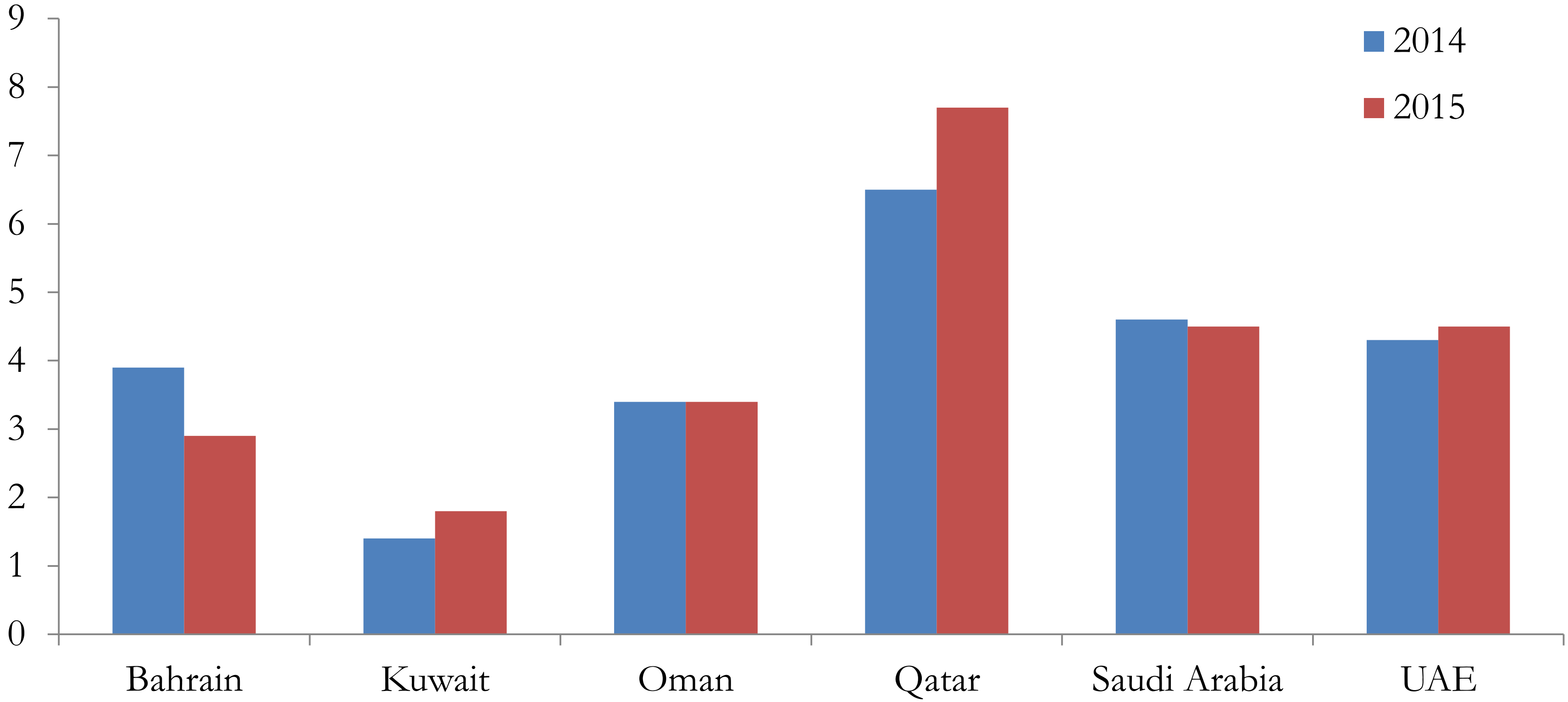


Sources: National authorities; and IMF staff calculations.

Growth remains steady in most GCC countries

GCC Countries: Real GDP Growth

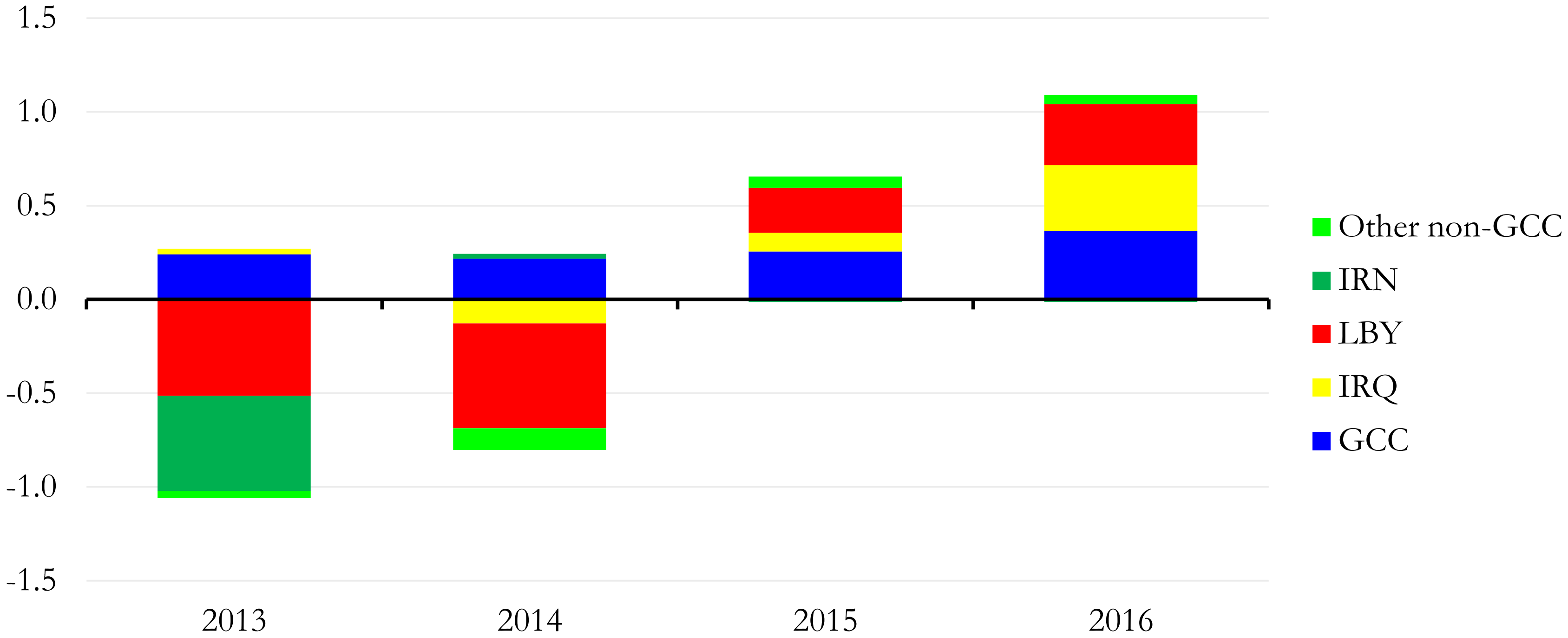
(Percent)



Non-GCC outlook is highly uncertain, contingent on oil recovery in Libya and Iraq

Hydrocarbon[1] Production

(Change relative to previous year, millions of barrels per day)



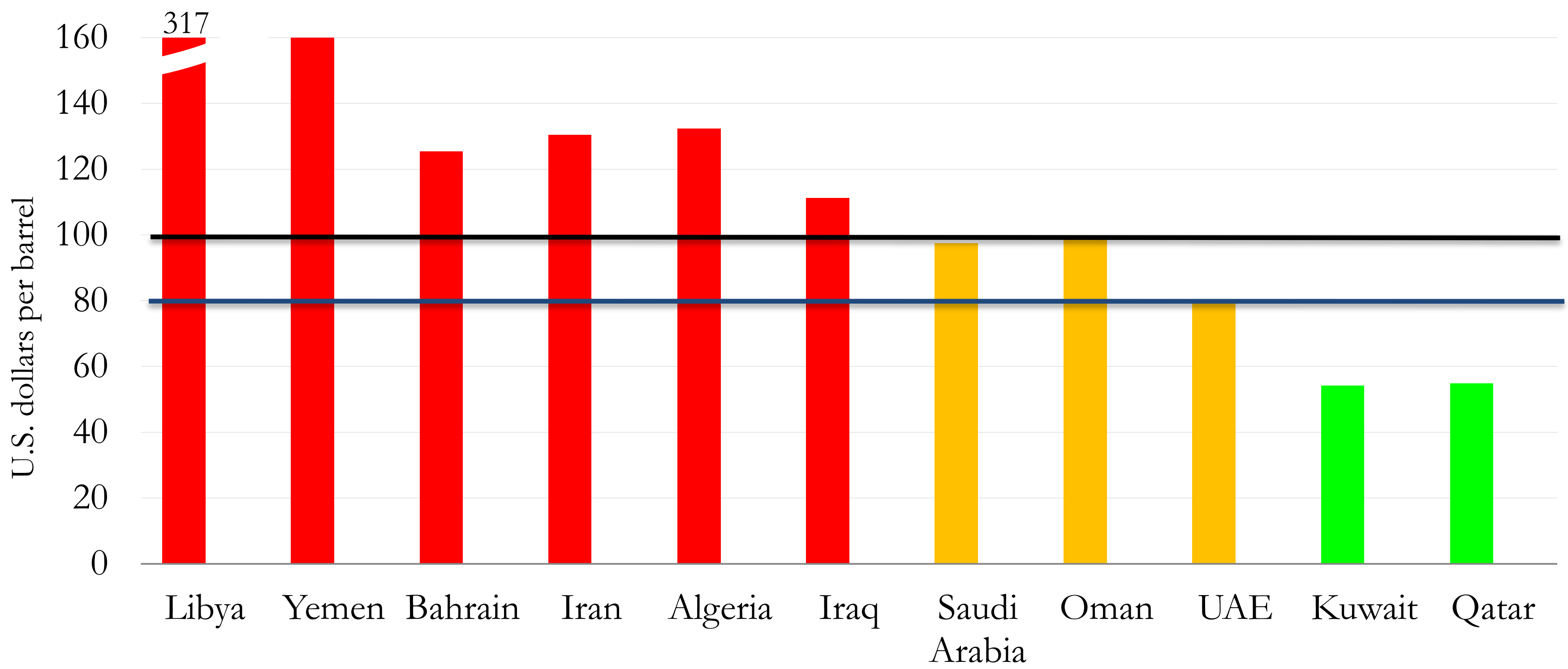
Sources: national authorities; and IMF staff calculations.

[1] Crude oil, natural gas, natural gas liquids, condensates, refined products, and other hydrocarbons.

Lower oil prices are putting pressure on government budgets

Fiscal Breakeven Oil Price, 2014

(U.S. dollars per barrel)

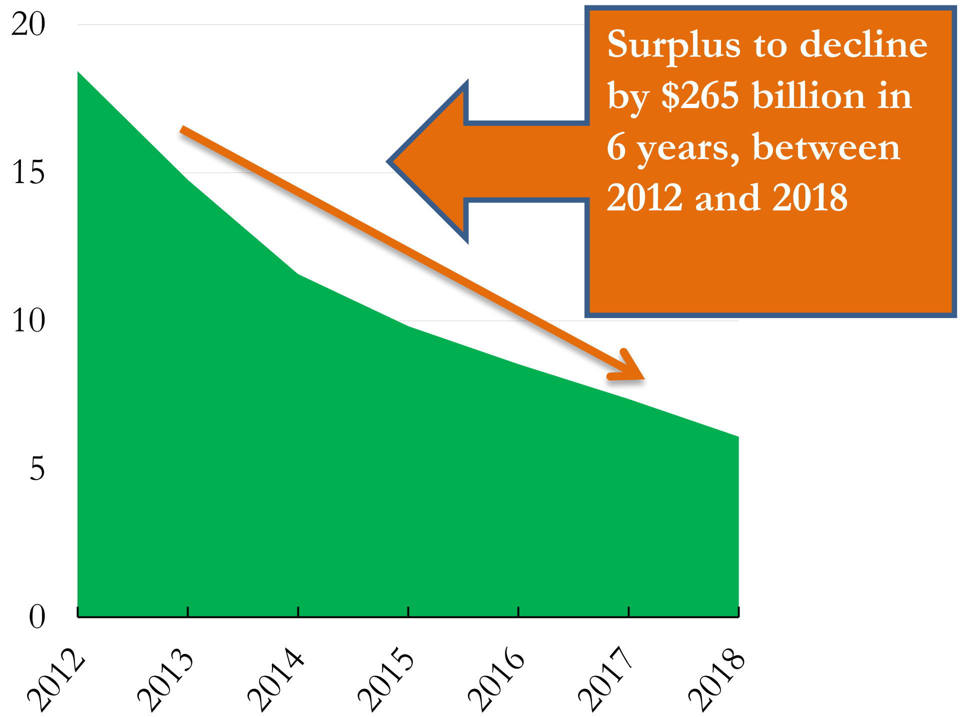


Sources: National authorities; and IMF staff calculations.

Rising domestic energy consumption is reducing external surpluses

Current Account Balance

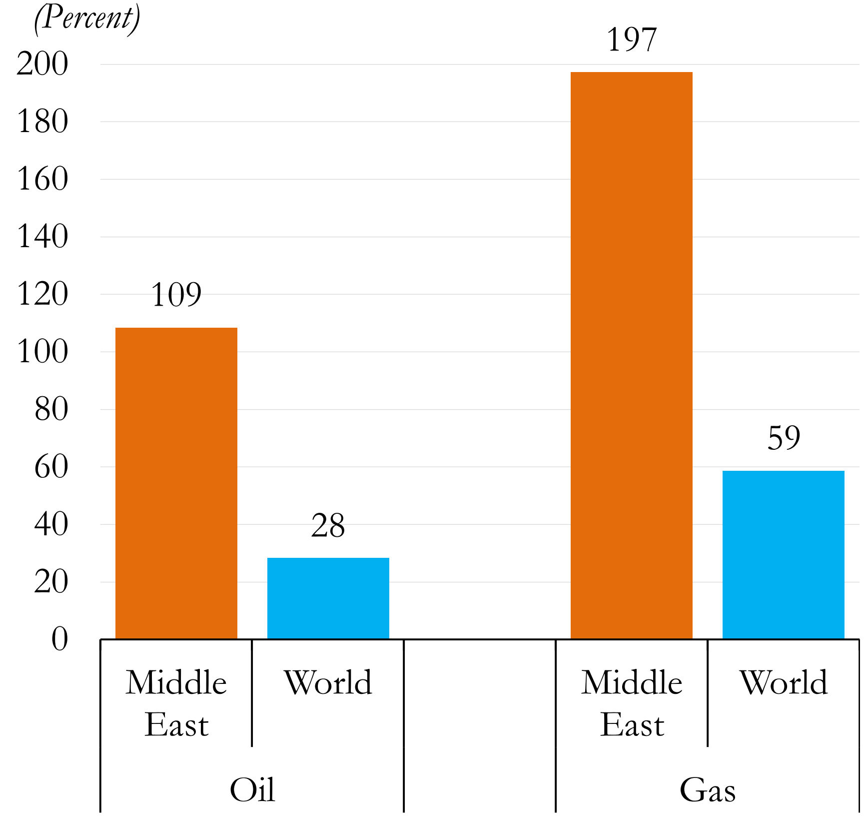
(MENAP oil exporters: percent of GDP)



Sources: National authorities; and IMF staff calculations.

Oil and Gas Demand Growth, 2000-19

(Percent)

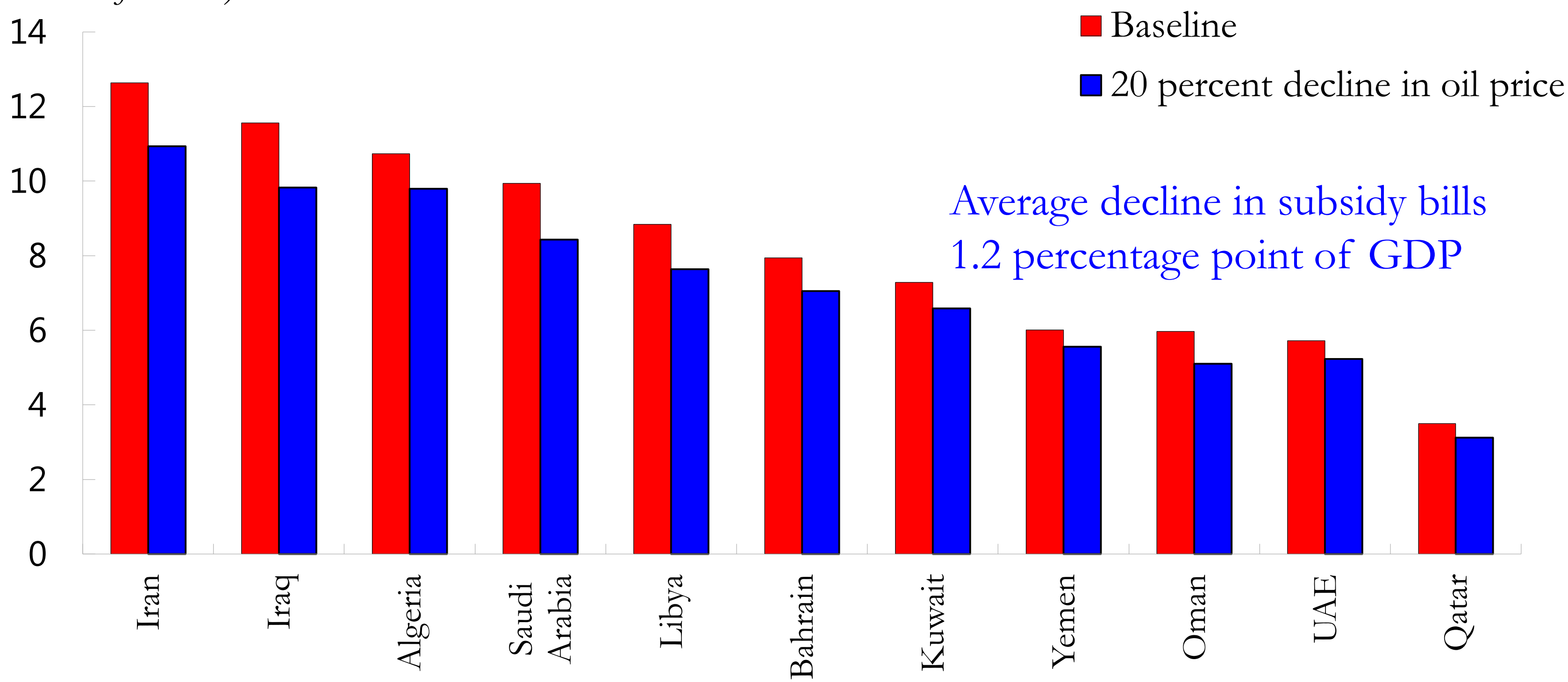


Source: International Energy Agency

Sizeable energy subsidies are a key reason behind weakening fiscal and external positions

MENA Oil Exporters: Pre-Tax Energy Subsidies

(Percent of GDP)



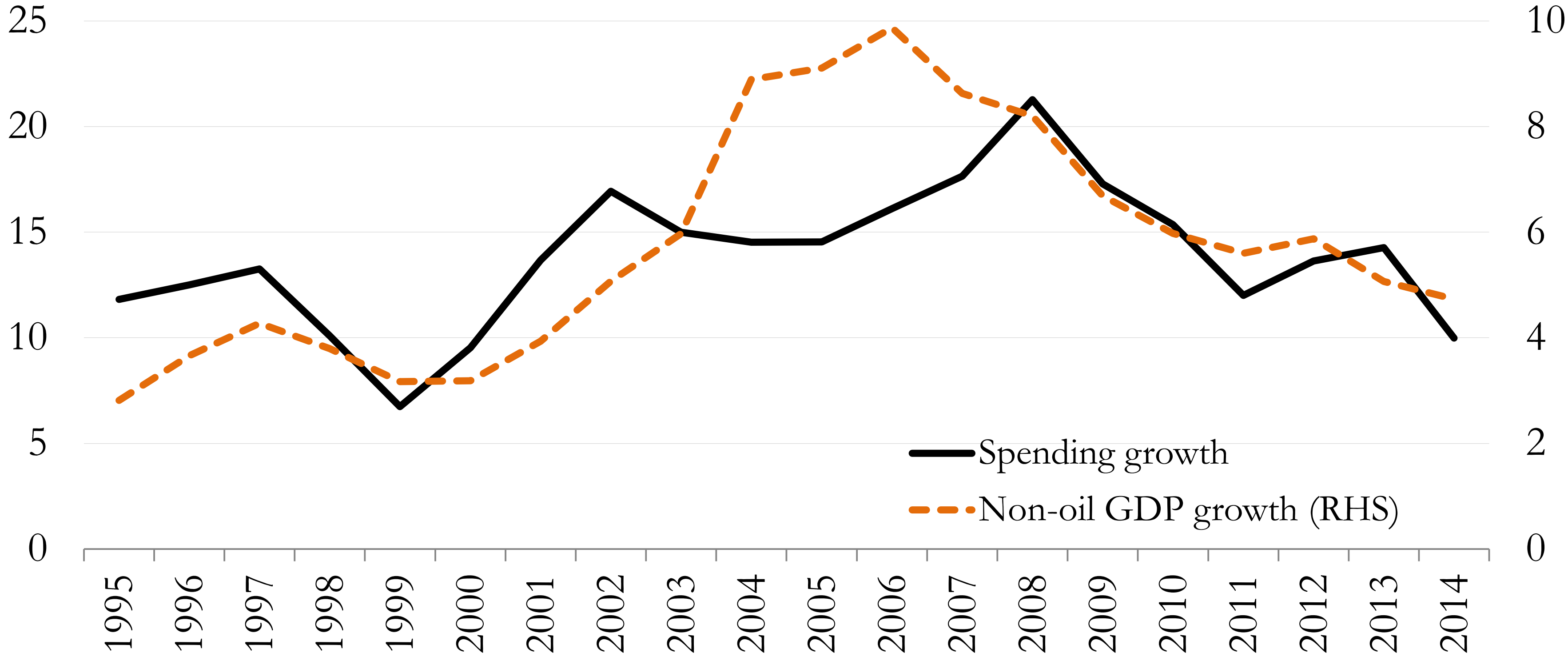
Sources: Staff estimates, OECD, IEA, Deutsche Gesellschaft für Internationale Zusammenarbeit, WEO, and World Bank.

Notes: Latest data available (2011). Includes petroleum, electricity, natural gas, and coal subsidies. Impact of lower oil prices calculated on gasoline and diesel only.

Sustaining private sector growth without government spending increases

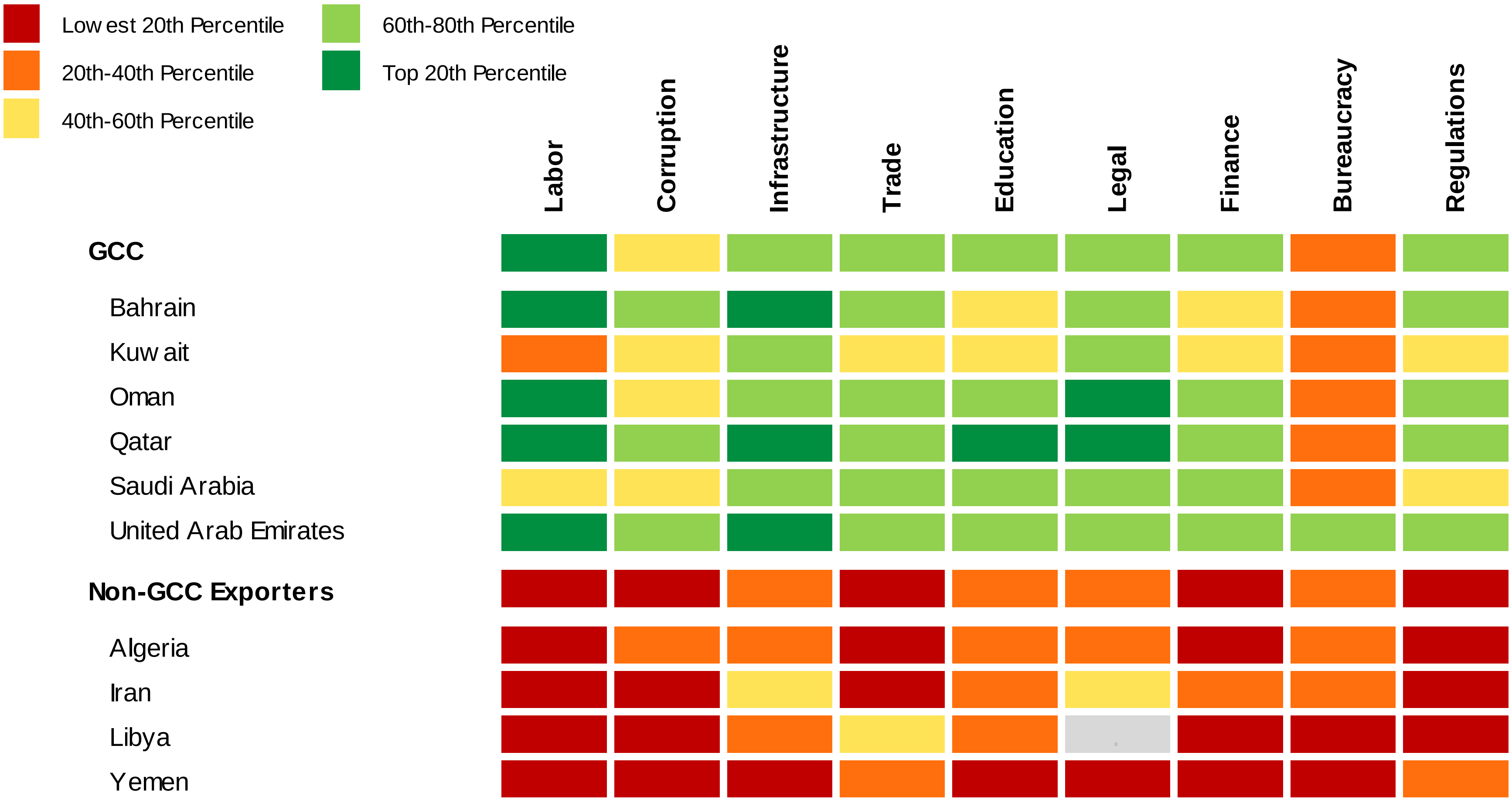
Government Spending and Non-Oil GDP Growth

(Percent, three-year moving average)



Sources: National authorities; and IMF staff calculations.

Significant structural reforms are needed, particularly outside the GCC



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

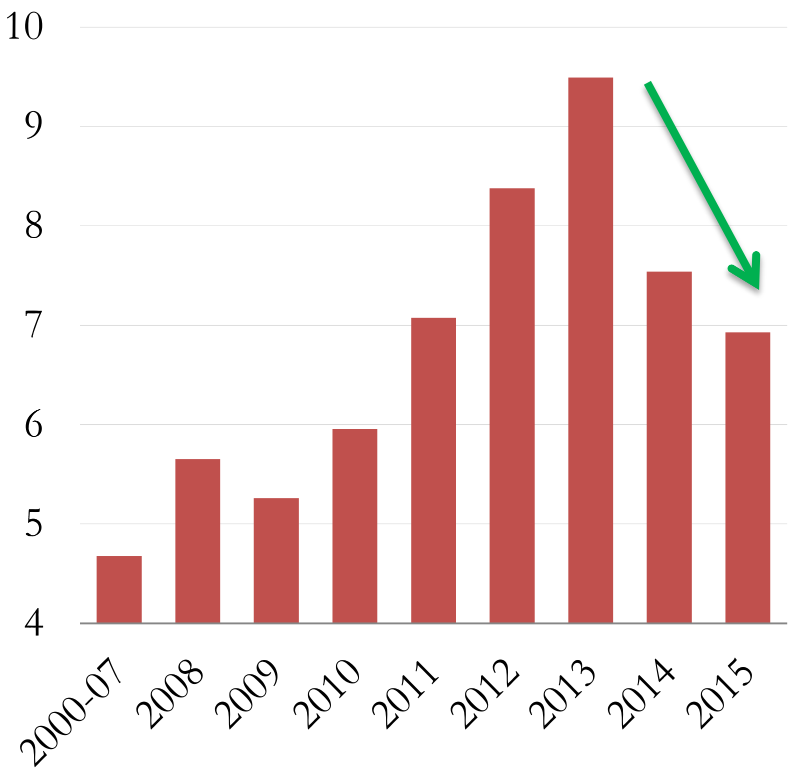
MENAP Oil Exporters: Takeaways

- Robust growth in the GCC, uncertain outlook for non-GCC countries.
- The recent slide in oil prices has accelerated the weakening of fiscal and current account positions, leading to the following policy recommendations:
  - Use available buffers in the short run.
  - Develop credible medium-term fiscal consolidation plans, which has now become more urgent.
- The current growth model based on expanding government spending is not sustainable. The private sector needs to drive the economy.

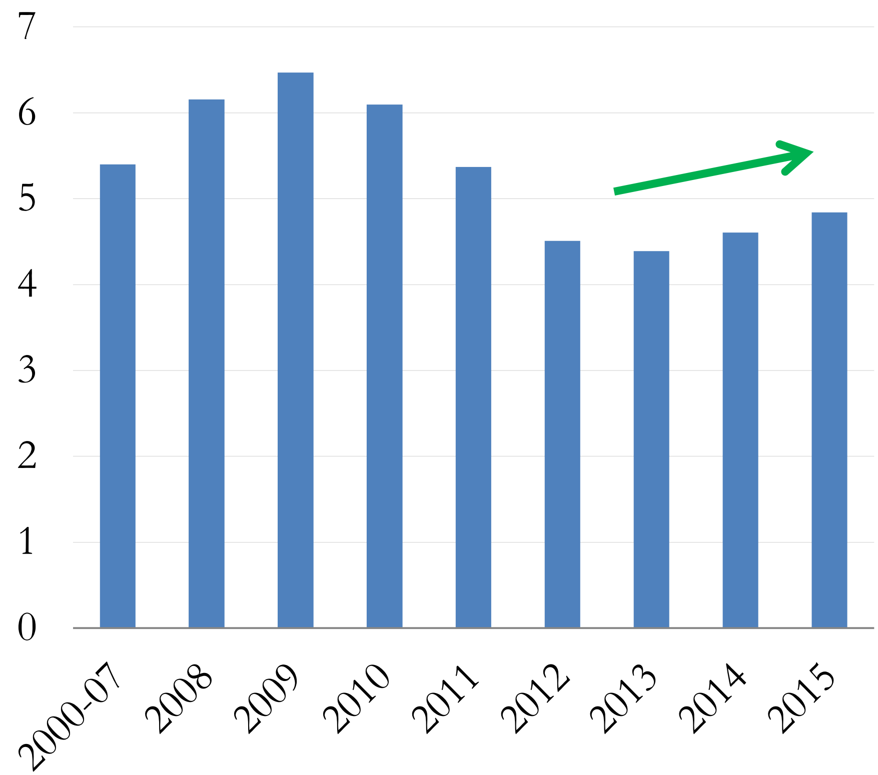
MENAP oil importers

Immediate fiscal pressures are easing, and international reserves are gradually improving

Fiscal Deficit
(Percent of GDP)



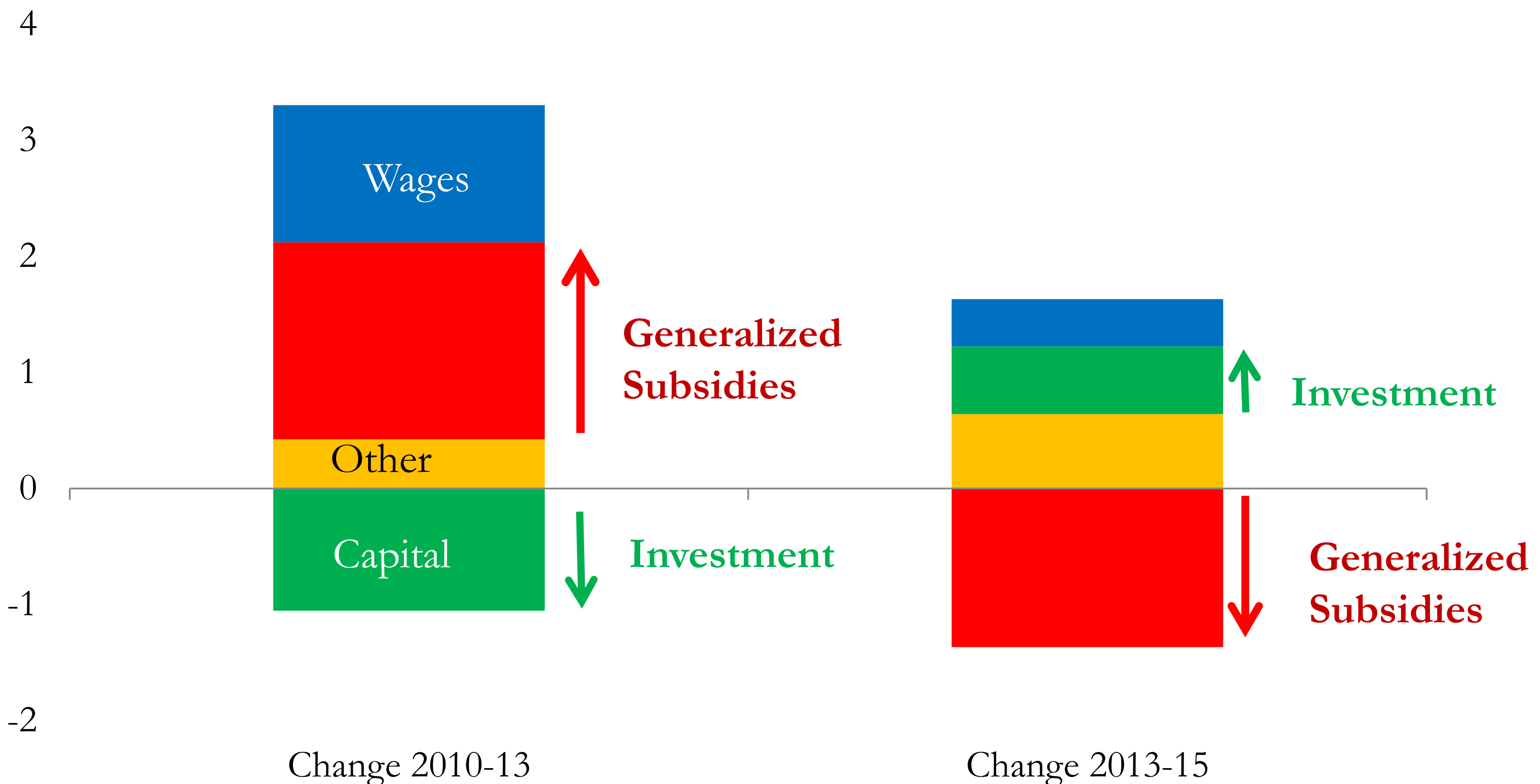
Reserves
(Months of imports)



Sources: Haver Analytics; and national authorities.

Subsidy reforms are expected to save governments 1 percentage point of GDP on average in 2014 and 2015

Change in Expenditure[1]
(Percent of GDP)

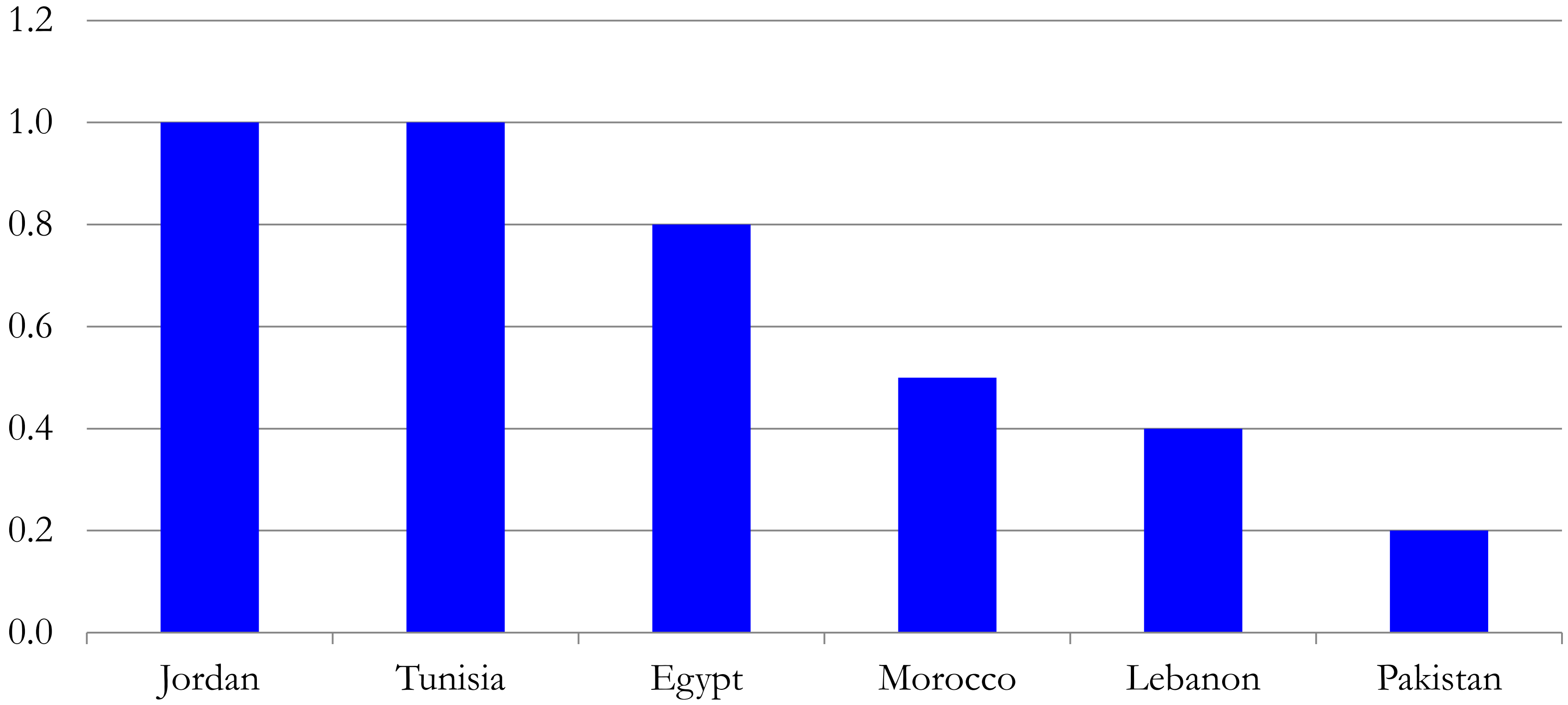


Sources: National authorities; and IMF staff calculations.
[1]Excludes Pakistan.

A 20 percent drop in oil prices could improve fiscal balances by as much as 1 percentage point of GDP

Change in Fiscal Balance, 2015

(Percent of GDP)

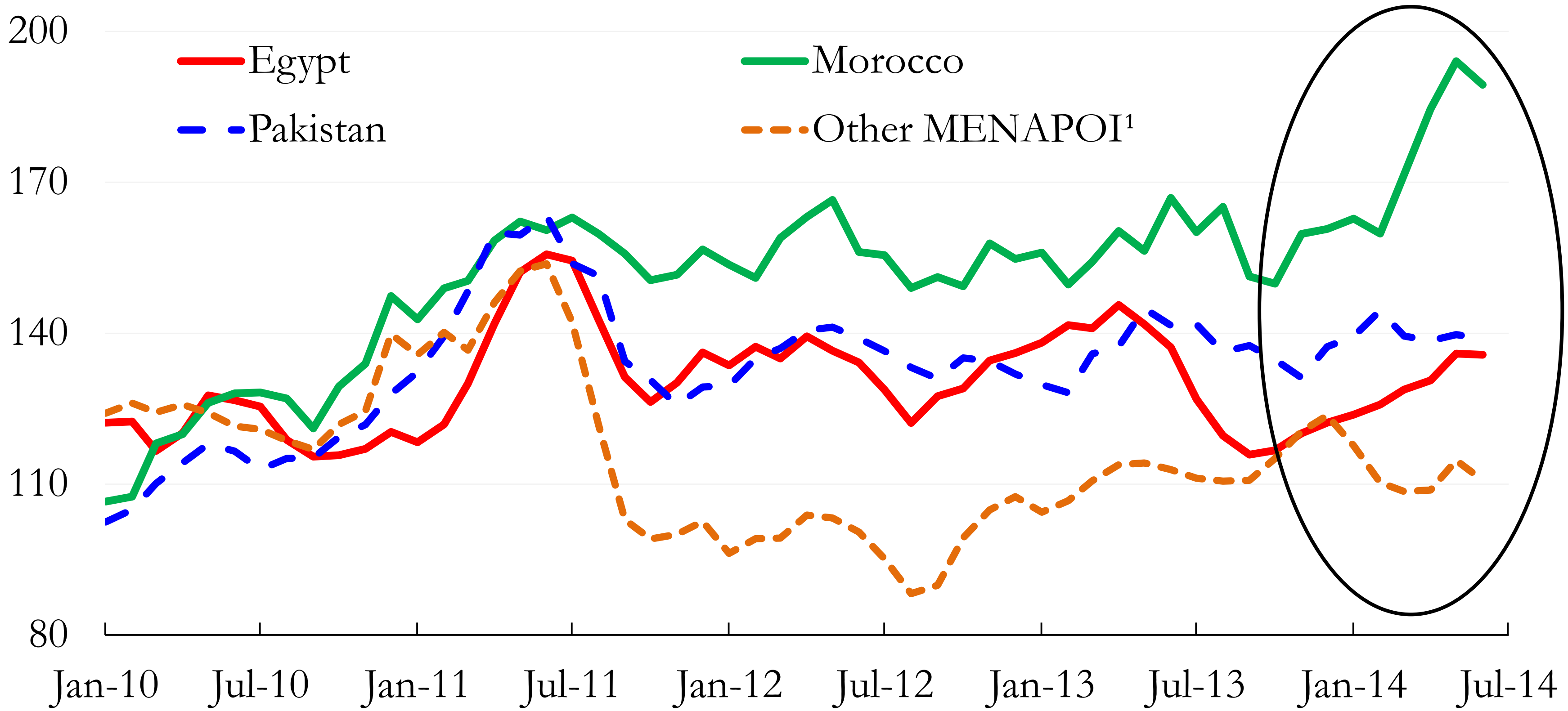


Sources: National authorities; and IMF staff calculations.
Note: Impact of lower oil prices calculated on gasoline and diesel only.

Exports are starting to recover, albeit unevenly

Exports of Goods

(Index; 3-month moving average, 2009=100)

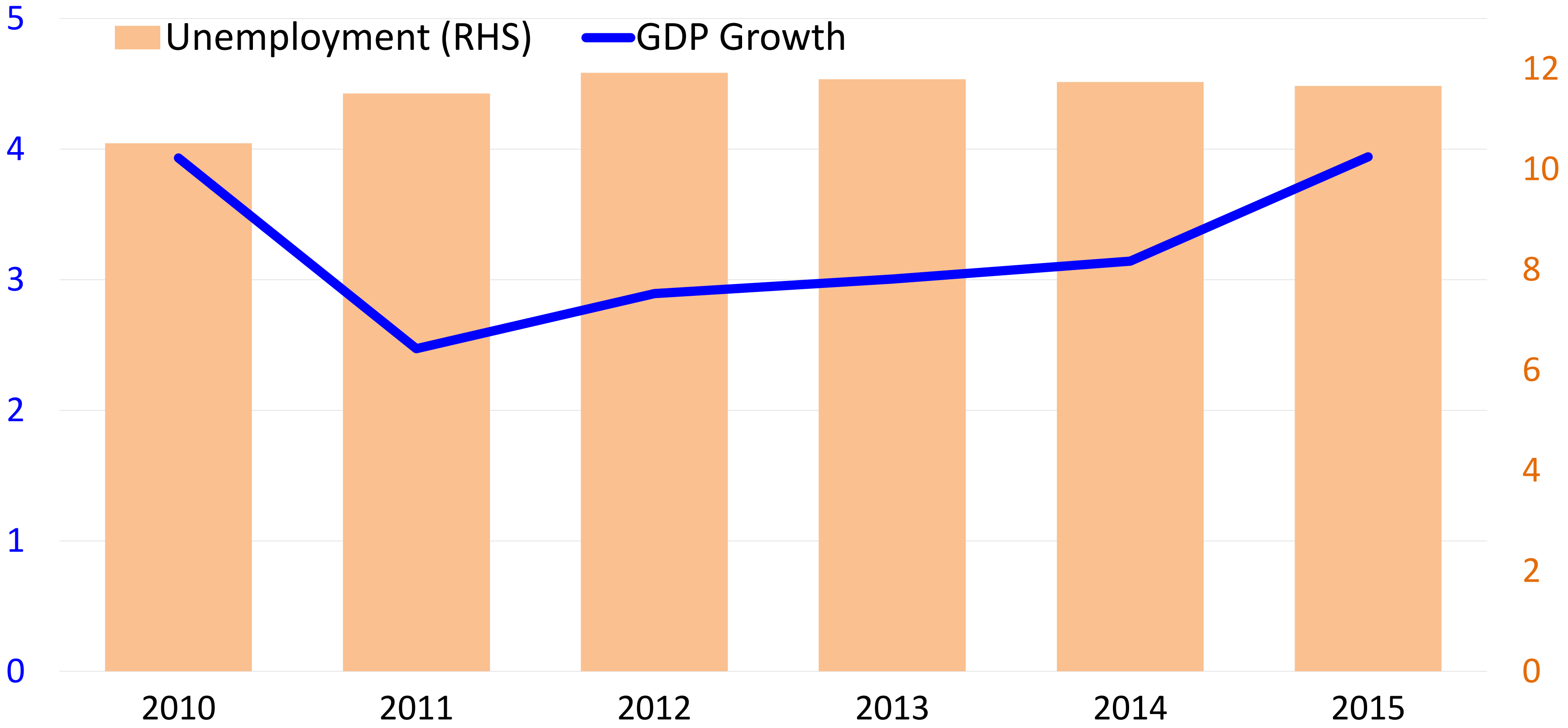


Sources: Haver Analytics; and national authorities.

[1]Afghanistan, Djibouti, Jordan, Lebanon, Mauritania, Sudan, and Tunisia.

The outlook is for a weak recovery and persistent unemployment

Real GDP Growth and Unemployment
(Percent)

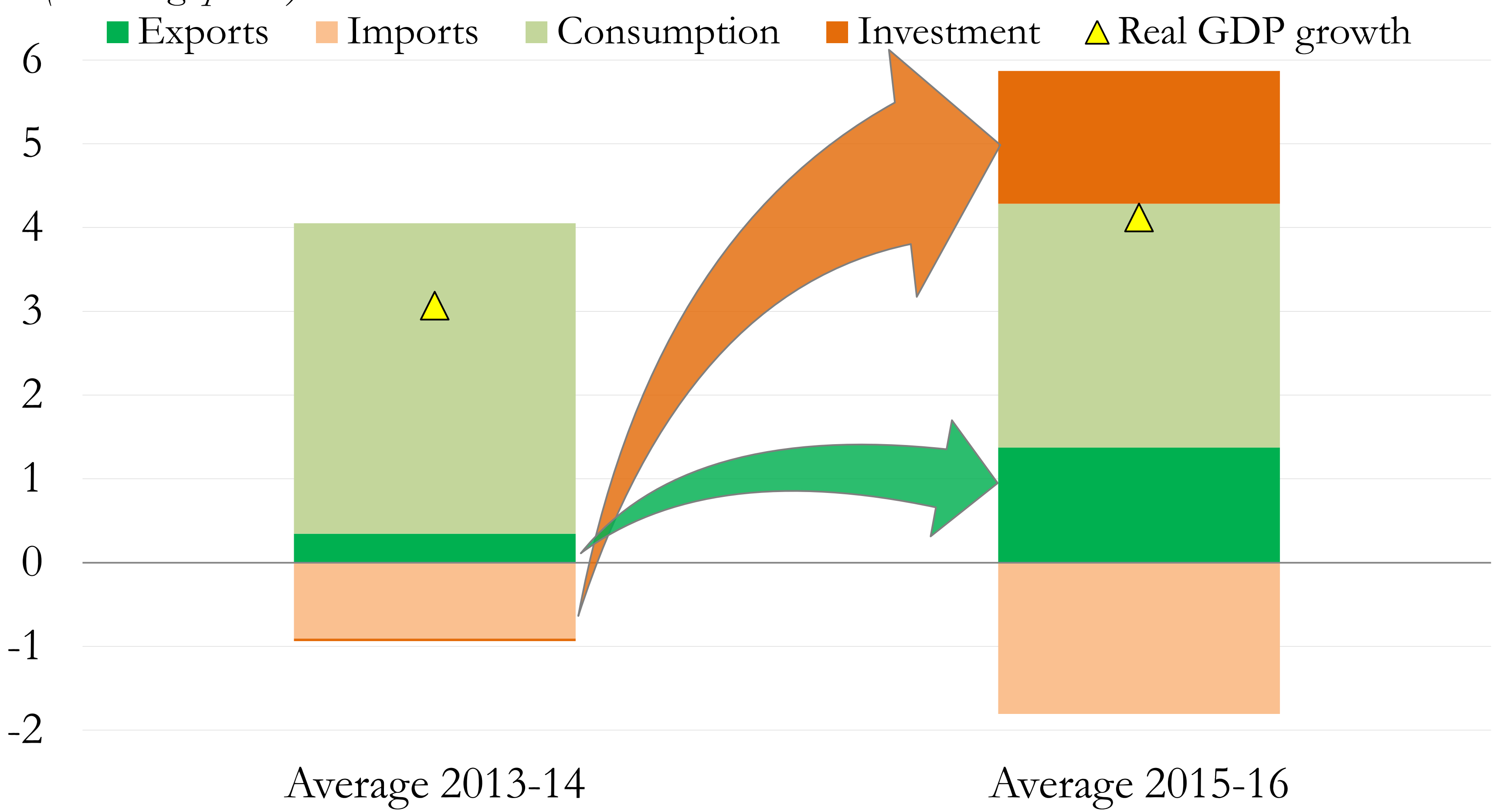


Sources: National authorities; and IMF staff calculations.

Downside risks to a pickup in exports and investment remain high

Contributions to Real GDP Growth

(Percentage points)



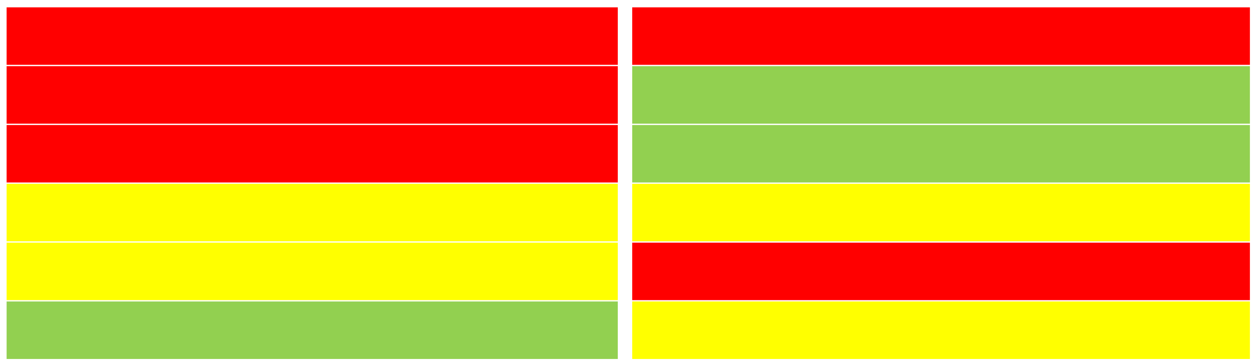
Sources: National authorities; and IMF staff calculations.

Room for countercyclical policy is limited, making it difficult to navigate the challenging environment

Policy Buffers

	Public debt Percent of GDP, 2014	Reserves Months of imports, 2014

Egypt
Jordan
Lebanon
Morocco
Pakistan
Tunisia



All data for 2014

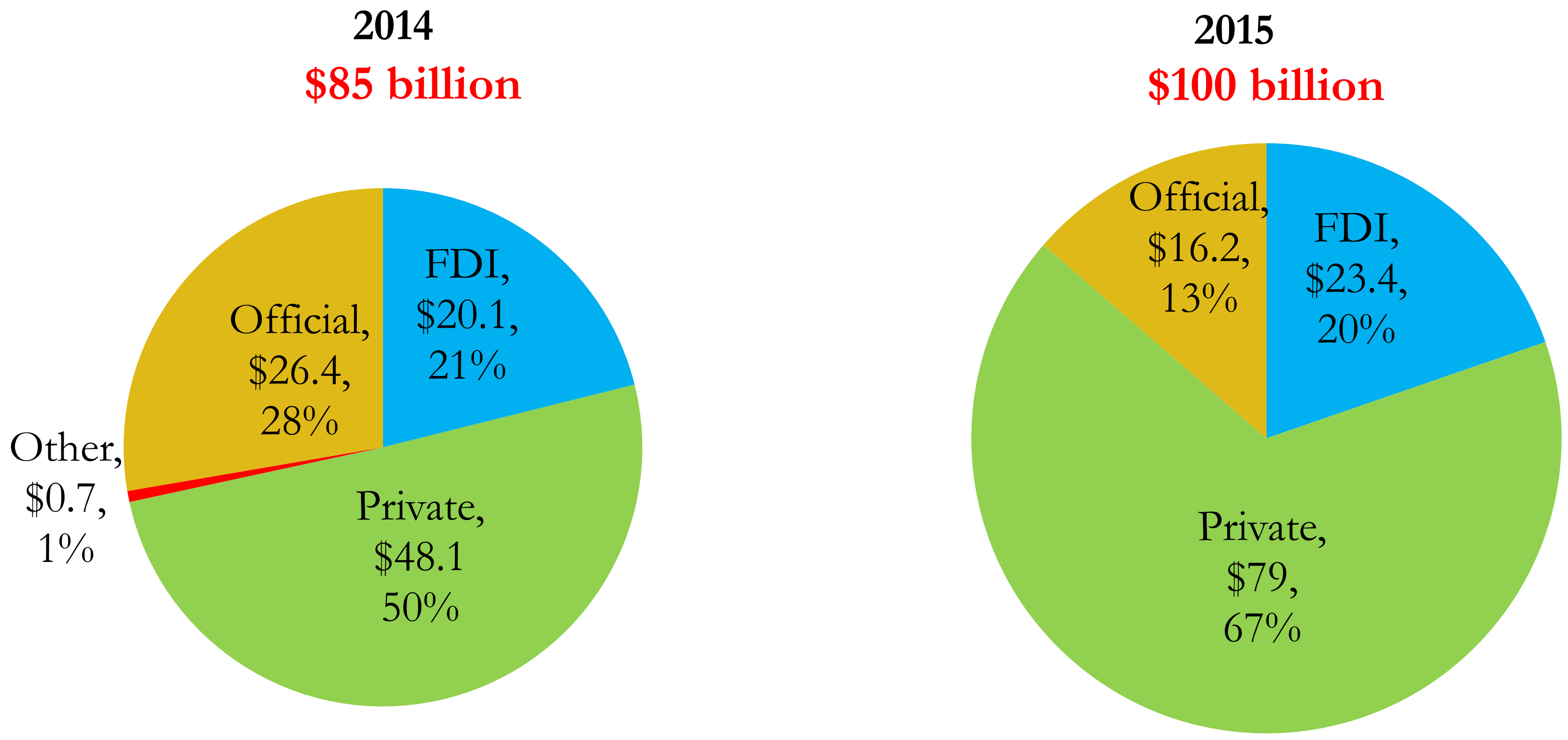
	Public debt	Reserves
	above 80% of GDP	below 3 m of imports
	60% to 80% of GDP	3-5 m of imports
	40 to 60% of GDP	above 5 m of imports

Sources: National authorities; and IMF staff calculations.

External financing needs remain large

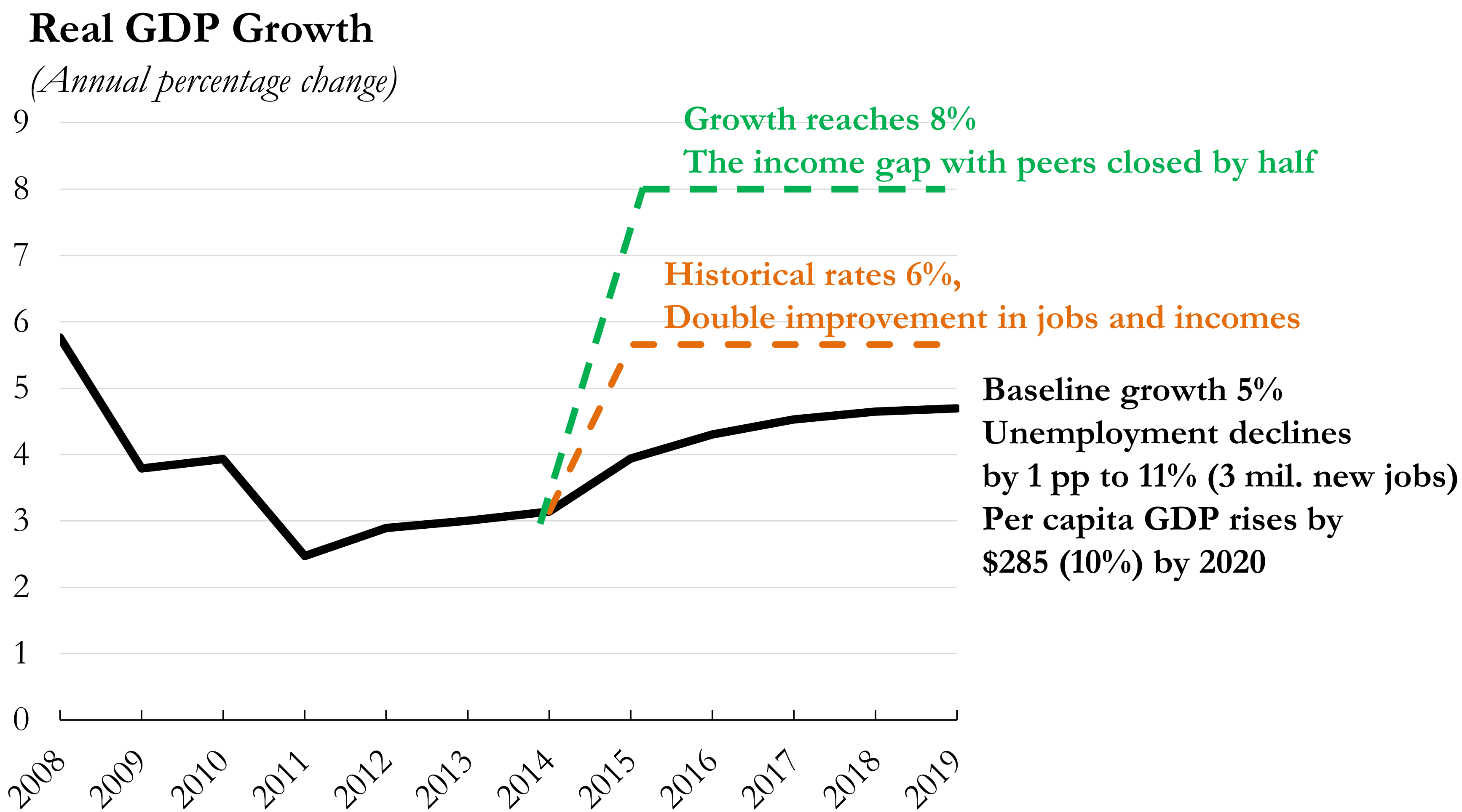
External Financing

(Billions of U.S. dollars and percent share)



Sources: National authorities; and IMF staff calculations.
Note: Reserves accumulation of $10 bil. in 2014 and $15 bil. in 2015 is excluded from the pie chart.

Medium-term growth is too weak to substantially reduce unemployment and improve living standards

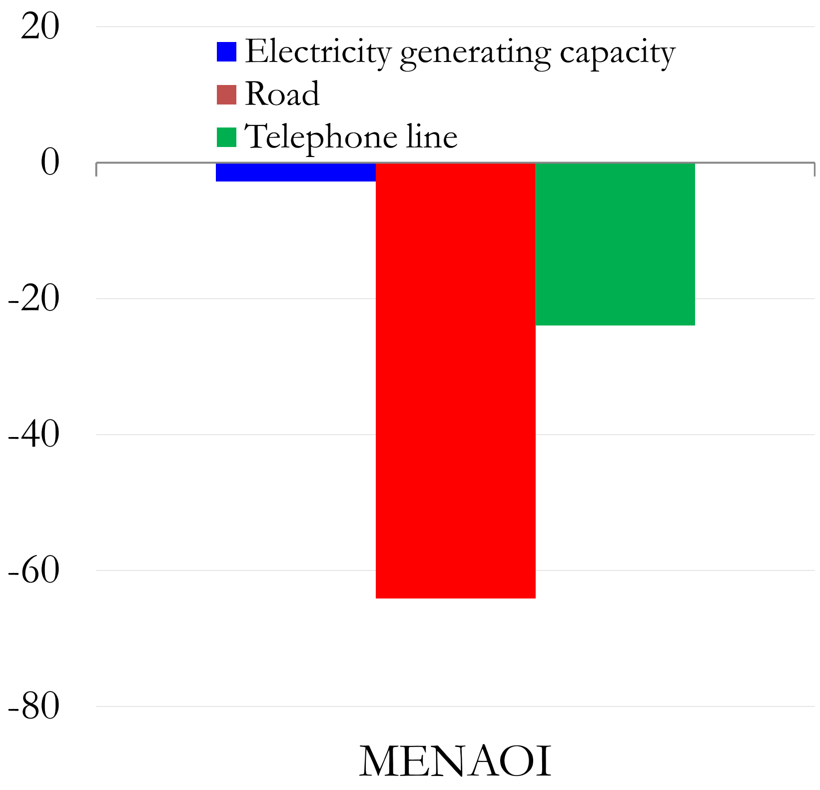


Sources: *World Economic Outlook*; national authorities; and IMF staff calculations.

Closing the shortfall in infrastructure investment of $15b per year can temporarily raise growth by 1½ pp

WEO Infrastructure GAP Estimates

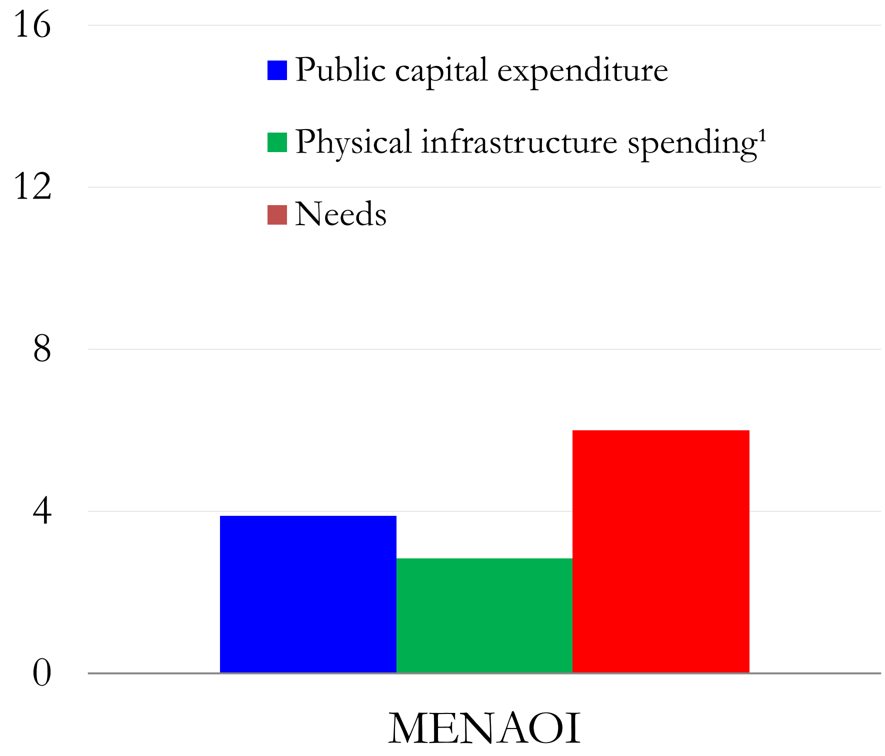
(Percent)



Source: Staff calculations.

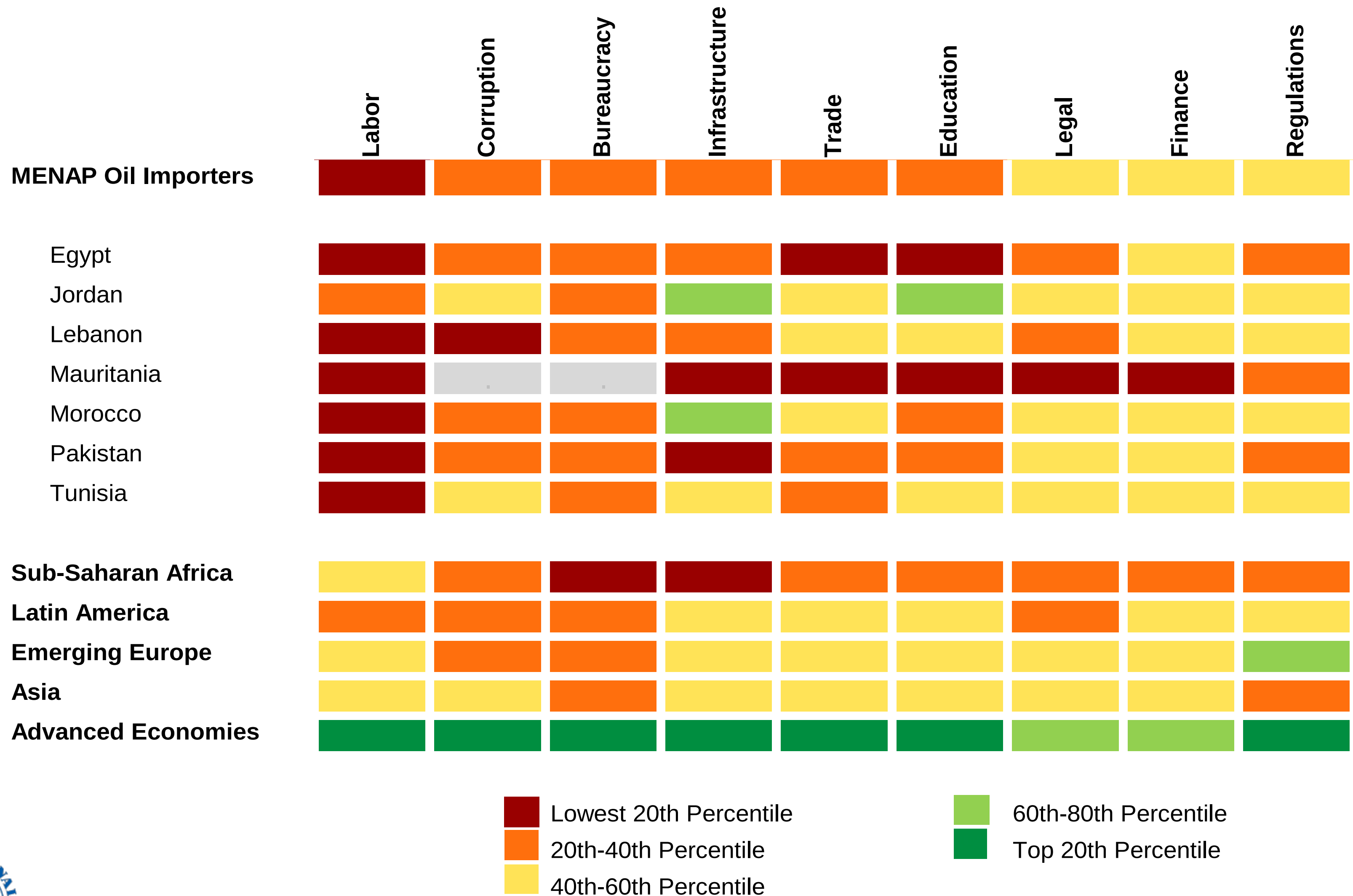
Public Investment and Infrastructure Needs, 2014-19

(Percent of GDP)



Sources: IMF WEO database, Ianchovichina et al (2013), the MDB Working Group on Infrastructure (2011), and staff estimates.

Wide-ranging structural reforms – rising above the world's bottom 40th quintile – are critical to avoid "the new mediocre"



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

MENAP Oil Importers: Takeaways

- Recovery remains weak and uneven.
- Improving fiscal and external positions still vulnerable, calling for more fiscal consolidation and sometimes greater exchange rate flexibility.
- Medium-term prospects are too weak to improve employment, living standards and inclusiveness. Deep structural reforms are imperative.

Thank you!

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http://www.imf.org/external/pubs/ft/reo/2014/mcd/eng/mreo1014.htm