

Middle East and North Africa Regional Economic Outlook

November 12, 2013



Outline

Global Outlook

MENAP: Recent Developments, Outlook, and Risks

- Oil Exporters
- Oil Importers

Key Takeaways

Global growth remains subdued, and its underlying dynamics are changing

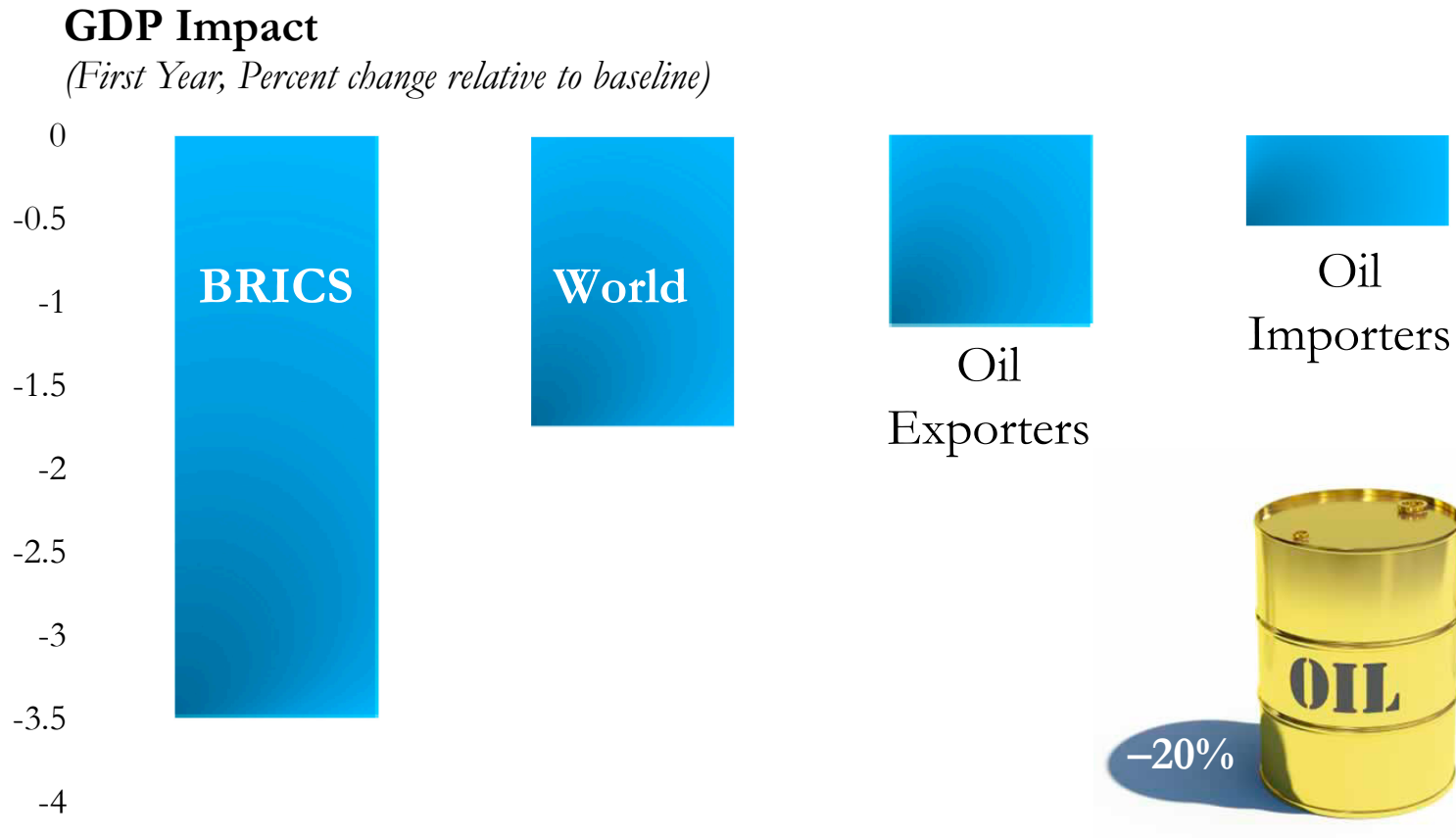
WEO Real GDP Growth Projections (percent change from a year earlier)



	World	U.S.	Euro Area	Emerging markets	China	India
2012	3.2	2.8	-0.6	4.9	7.7	3.2
2013	2.9	1.6	-0.5	4.5	7.6	3.8
2014	3.6	2.6	0.9	5.1	7.3	5.1

Source: IMF, *World Economic Outlook*.

Risk of slower-than-expected growth in emerging markets

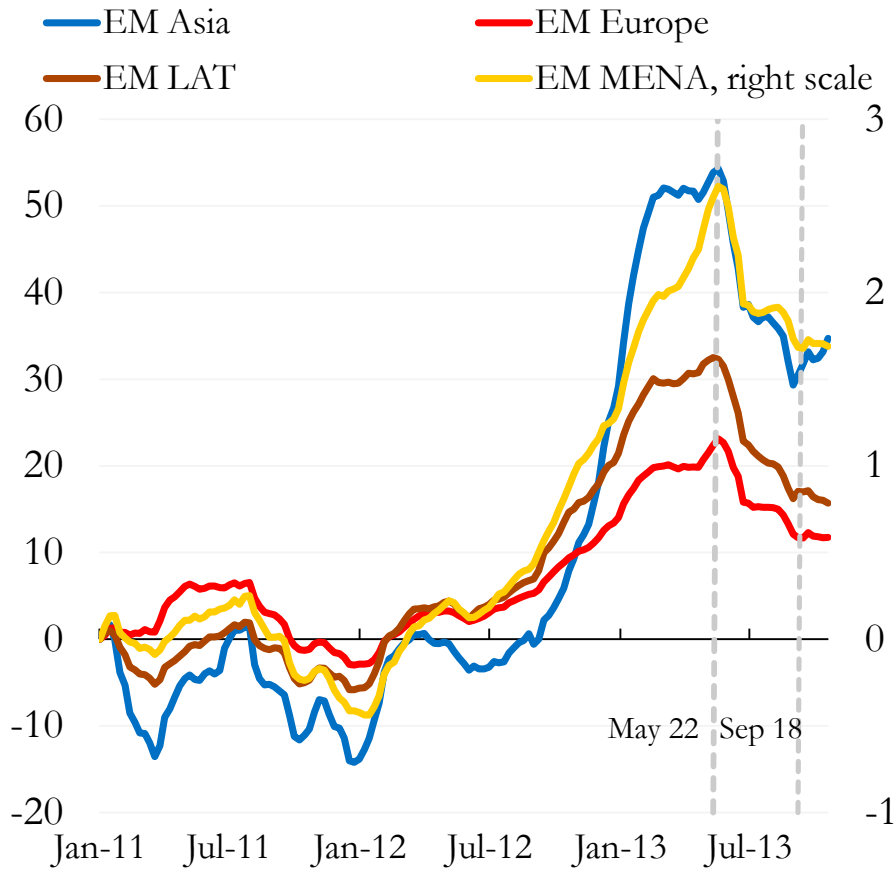


Source: IMF, *World Economic Outlook*; and Staff calculations.

Financial conditions remain tighter following recent market volatility

EPFR Cumulative Funds Flows¹

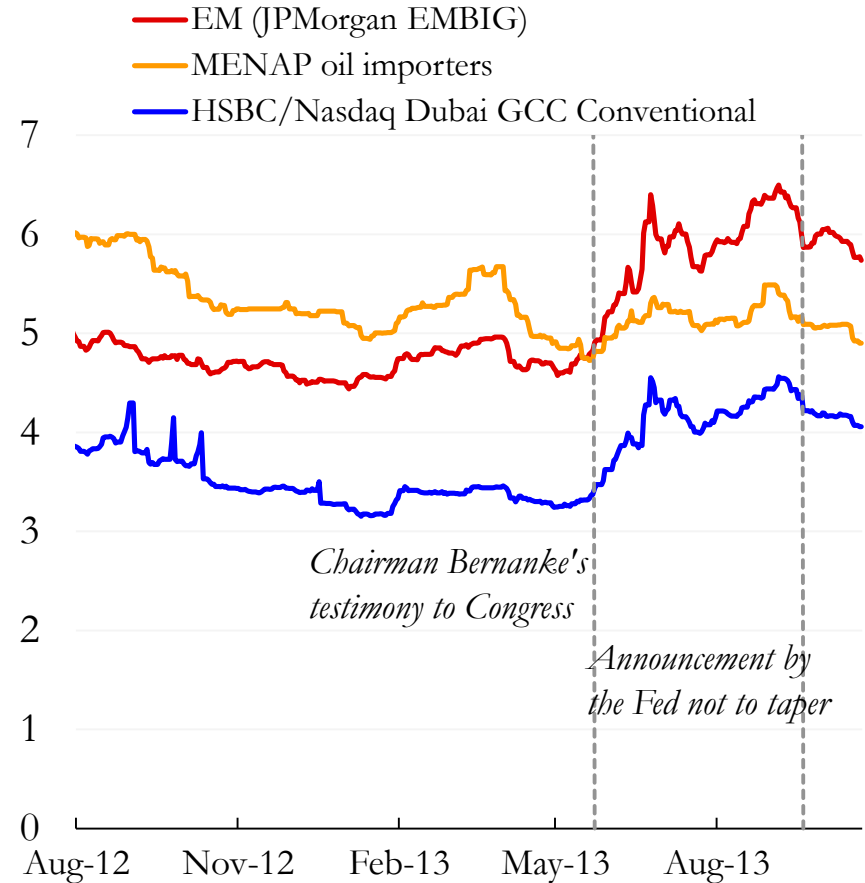
(Bonds and Equities, Jan 2011=0, in US\$ billions)



Sources: IMF, World Economic Outlook; and Bloomberg LP.

Bond Yields

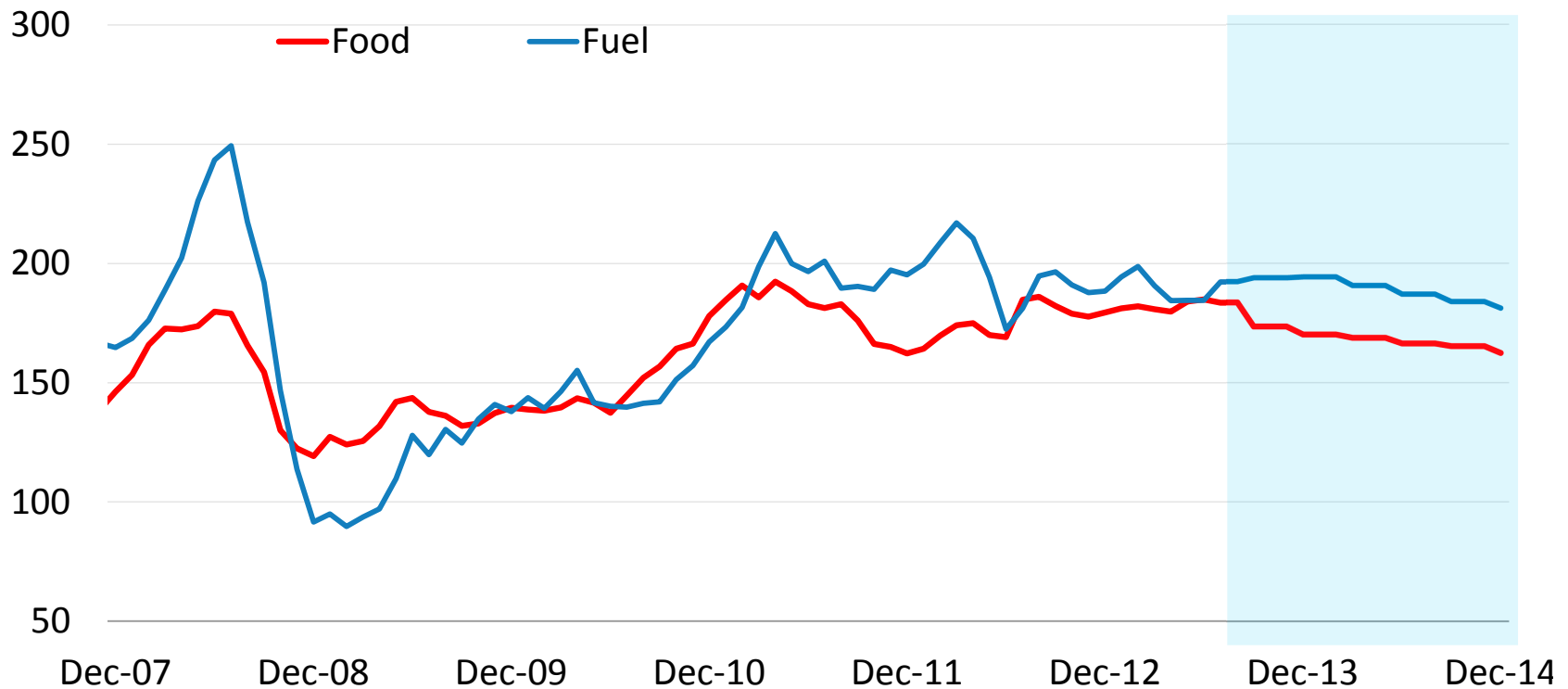
(Percent, Aug 2, 2012 – Oct 22, 2013)



Food and fuel prices remain elevated

Food and Fuel Price Developments¹

(Index; 2005 = 100)



Sources: IMF, Primary Commodity Price System; and IMF staff calculations.

¹Commodity food price index includes cereals, fruit and vegetables, and protein price indices.

Recent developments, outlook, and risks

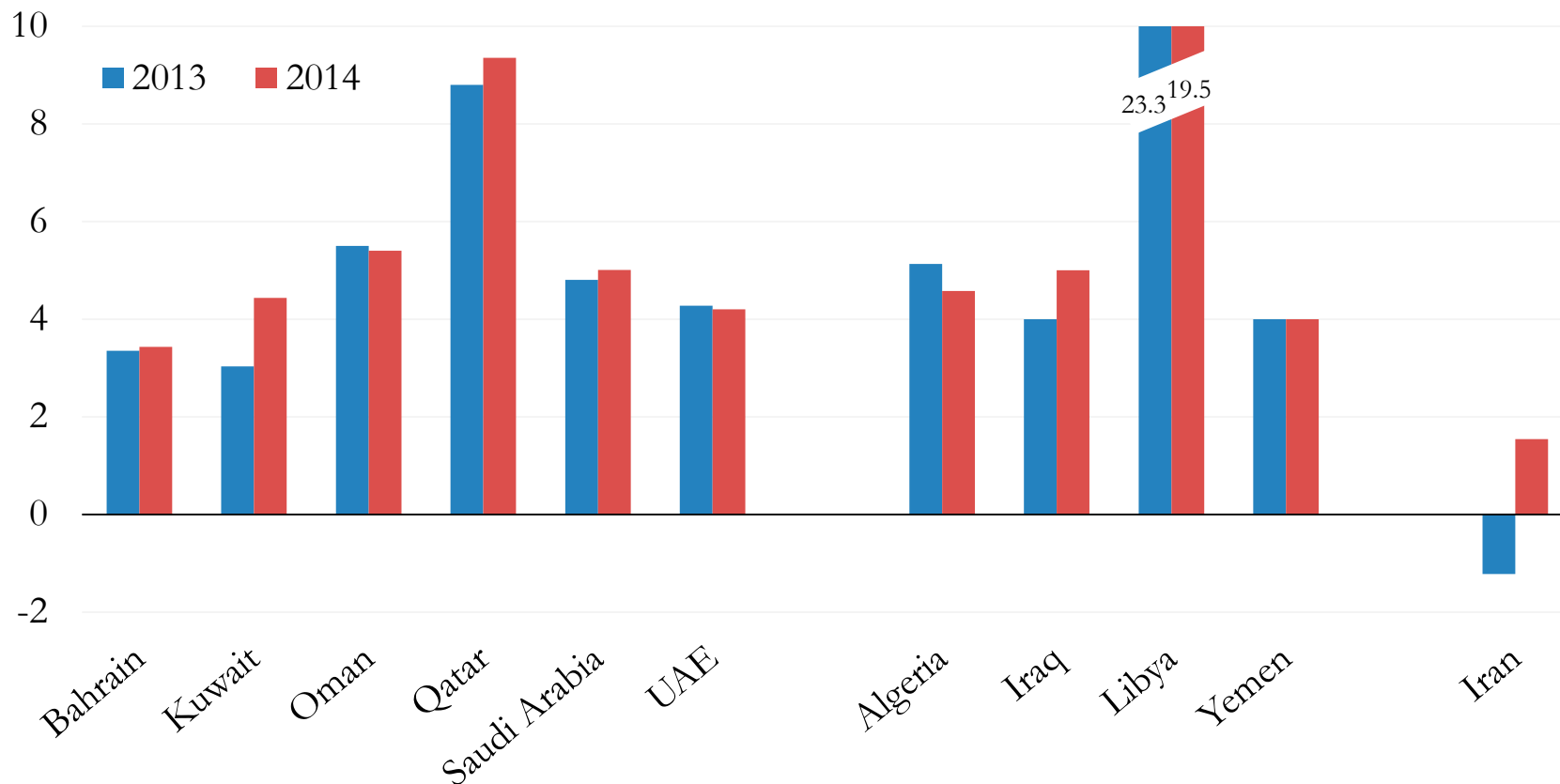
MENAP oil exporters



Non-oil GDP growth steady in most countries

Non-oil Real GDP Growth

(Annual percent change)

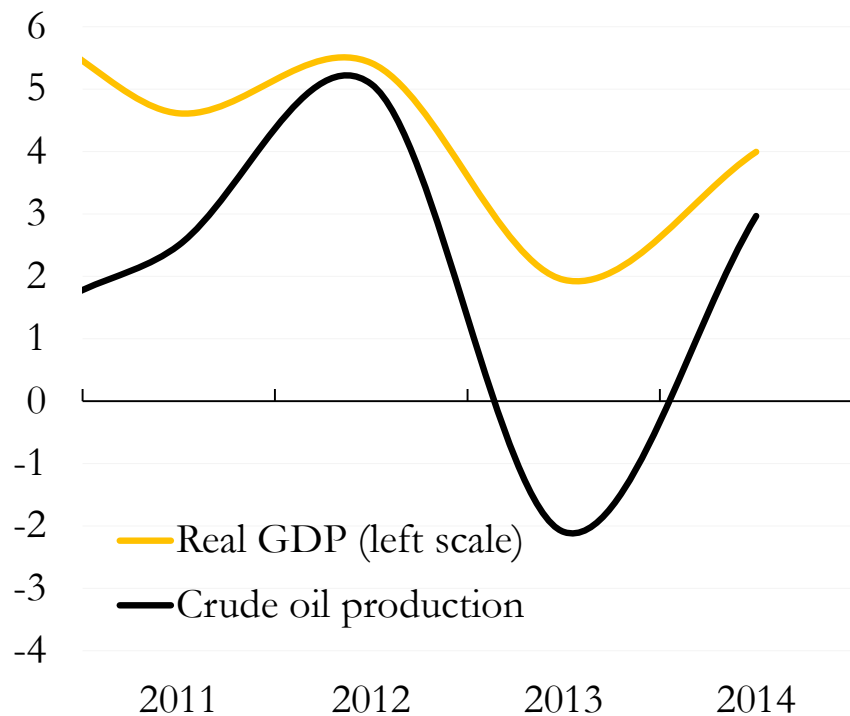


Sources: National authorities; and IMF staff calculations.

Headline growth in 2013 will be lower because of a decline in oil production

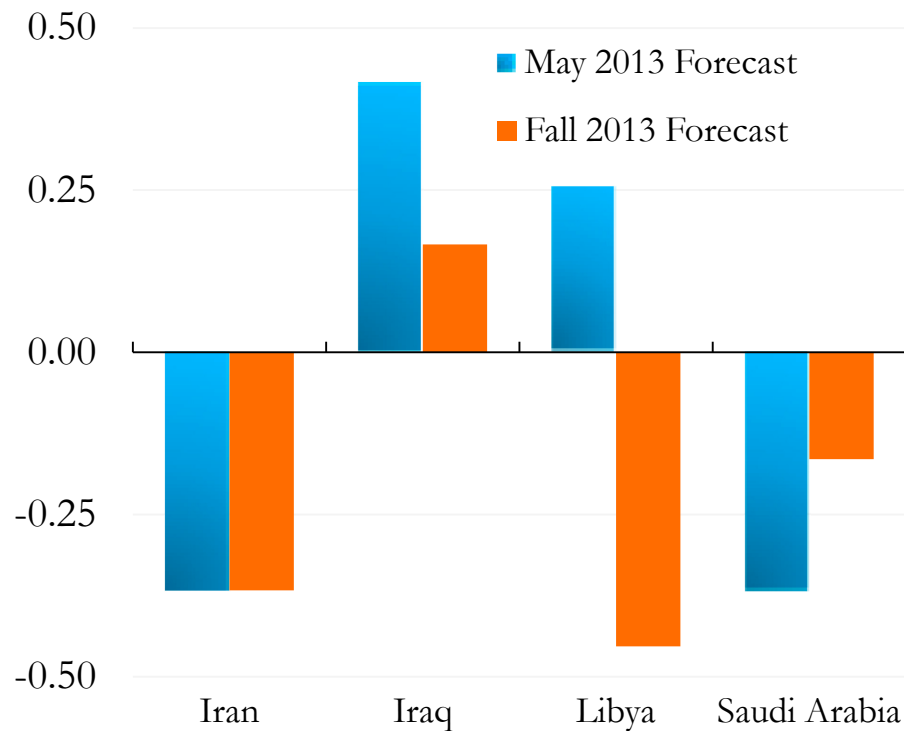
MENAP oil exporters: GDP and crude oil production

(Percent change)



Change in oil exports between 2012-13

(Millions of barrels per day)



Sources: National authorities; and IMF staff calculations.

Strong economic performance but challenges over the medium term

Oil production and price volatility

Large government spending increases

Segmented labor markets

Low or falling productivity

Risks to growth

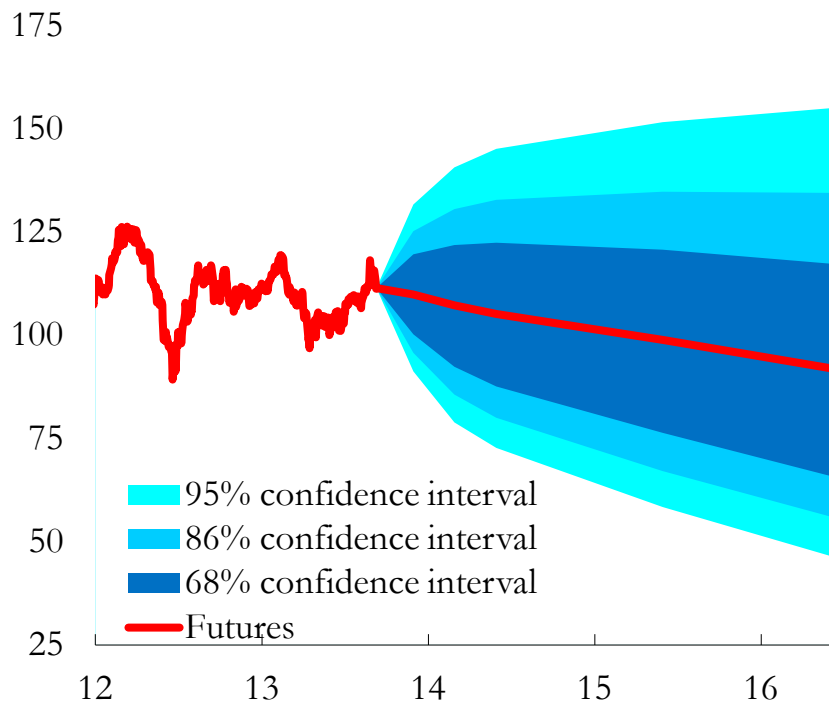
Rising fiscal vulnerabilities

Insufficient private-sector job creation for nationals

Risks to oil prices and production are significant

Oil price uncertainty¹

(U.S. dollars per barrel)

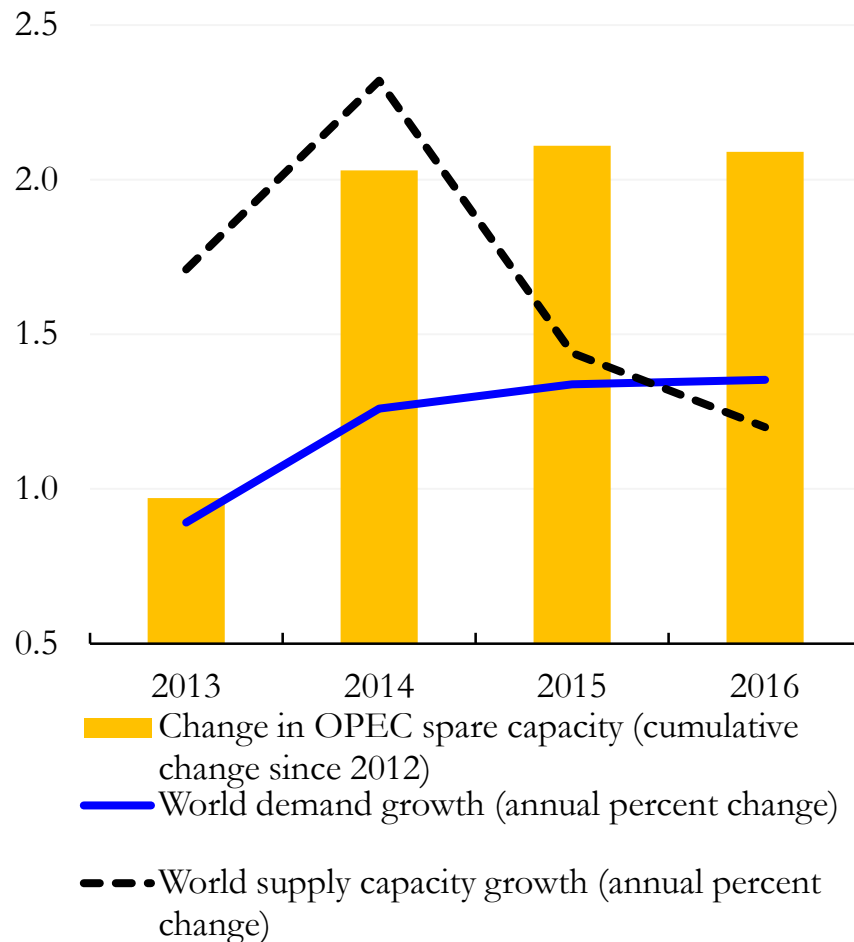


Sources: IEA Medium Term Oil Market Report (2013); IMF, Primary Commodity Price System; and IMF staff calculations.

¹Derived from prices of futures and options on Sep. 12, 2013.

Ample medium-term capacity

(Millions of barrels per day, 2013–16)

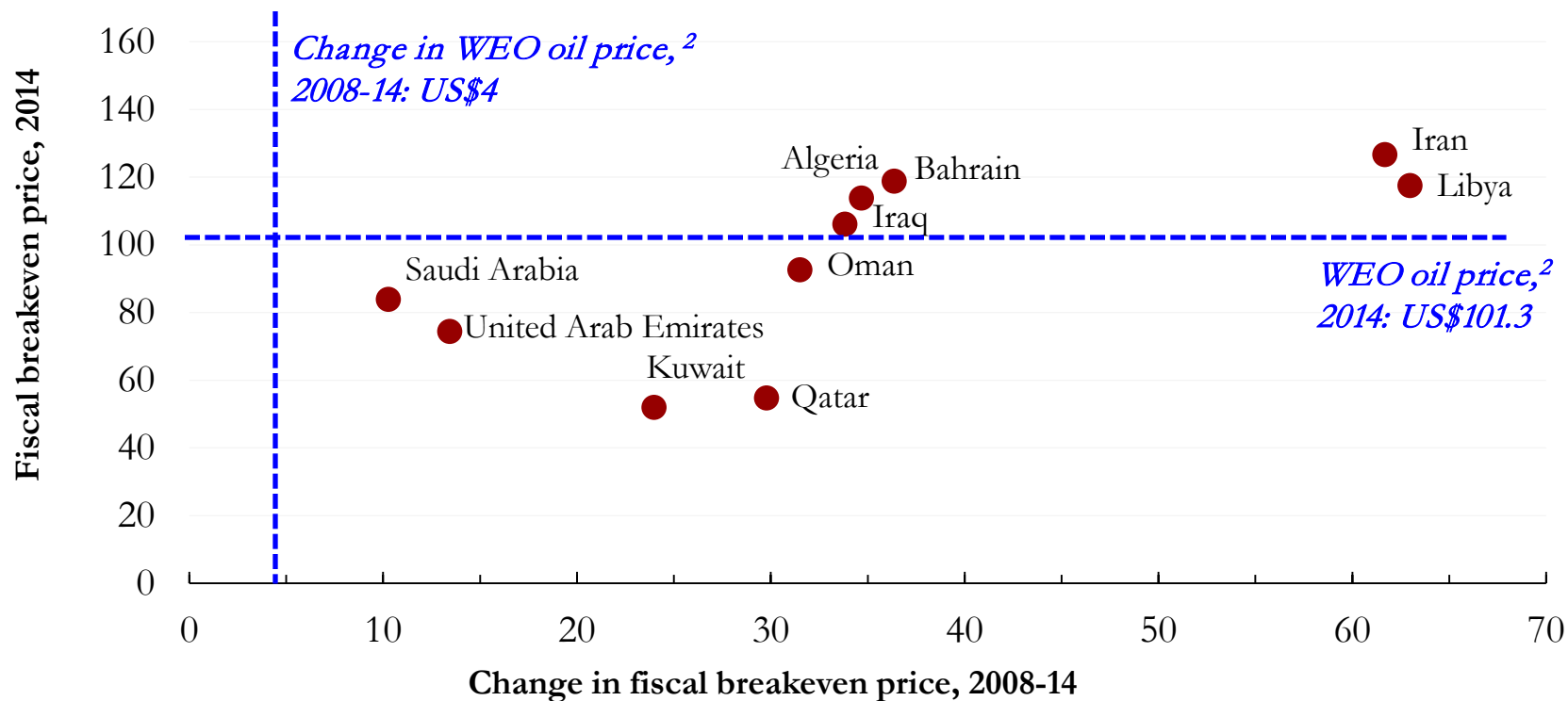


MENAP oil exporters

Government budgets are increasingly vulnerable to a decline in oil prices

Fiscal Breakeven Prices

(U.S. dollars per barrel)¹



Sources: National authorities; and IMF staff calculations.

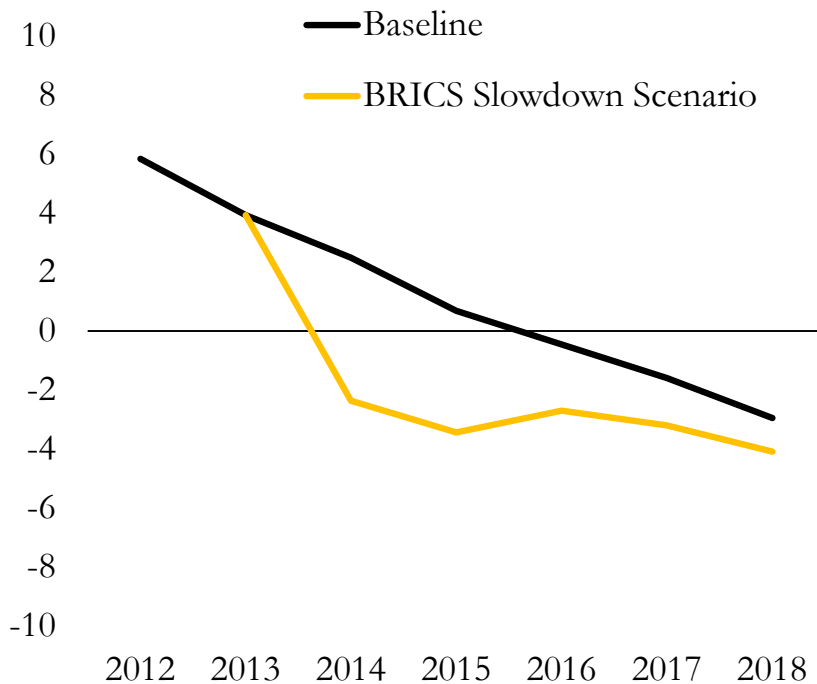
¹Yemen fiscal breakeven, 2013: US\$215 per barrel.

² Simple average of UK Brent, Dubai, and West Texas Intermediate Spot Prices.

Fiscal and external buffers are declining

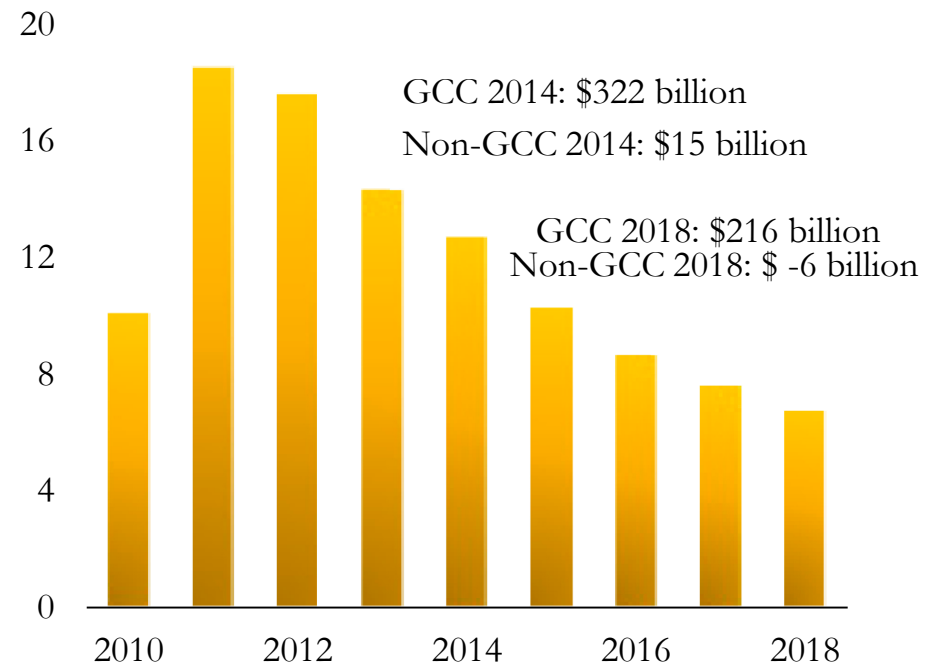
Fiscal Balances

(Percent of GDP)



Current Account Balances

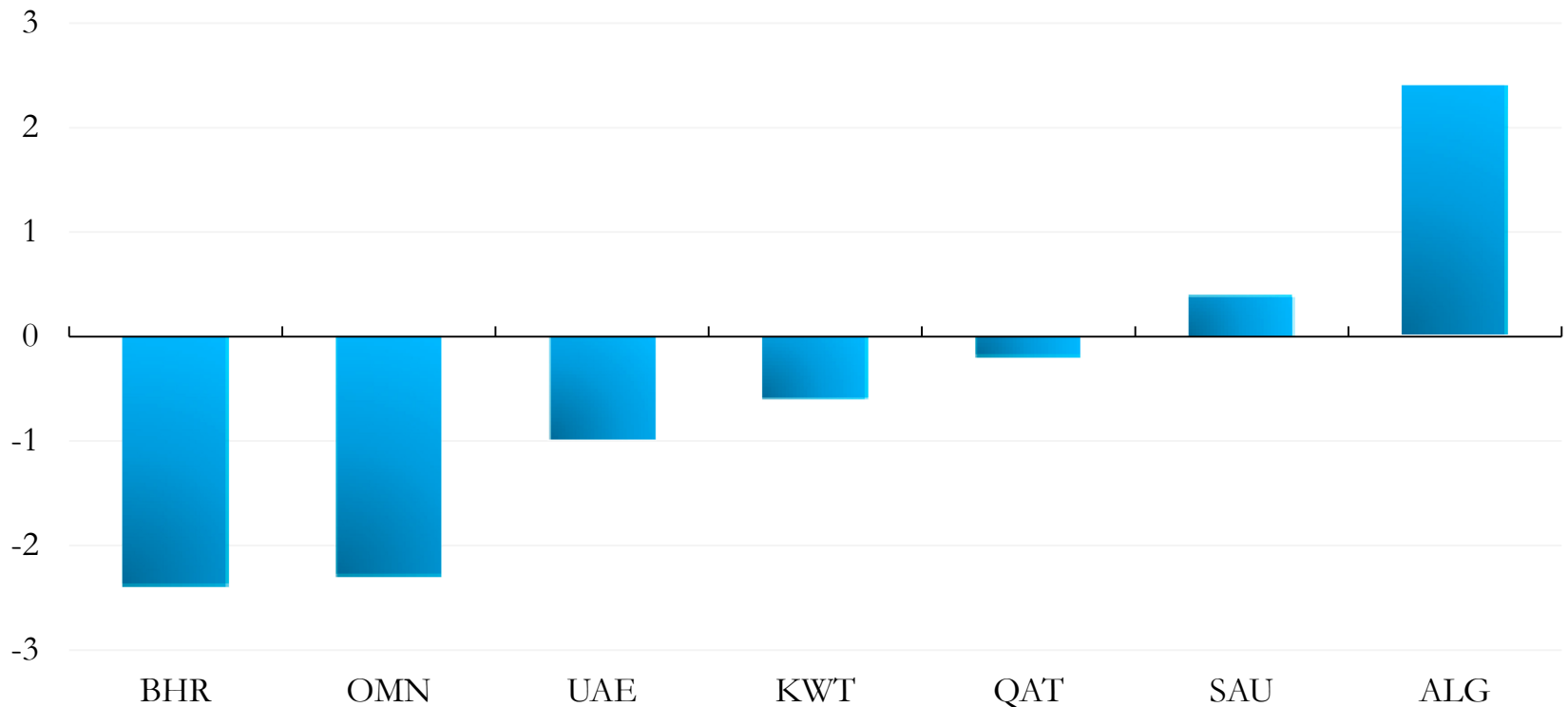
(Percent of GDP)



Sources: National authorities; and IMF staff calculations.

Can the current economic model deliver sustainable growth?

Non-oil Total Factor Productivity Growth
(Percent change, 2000-12)

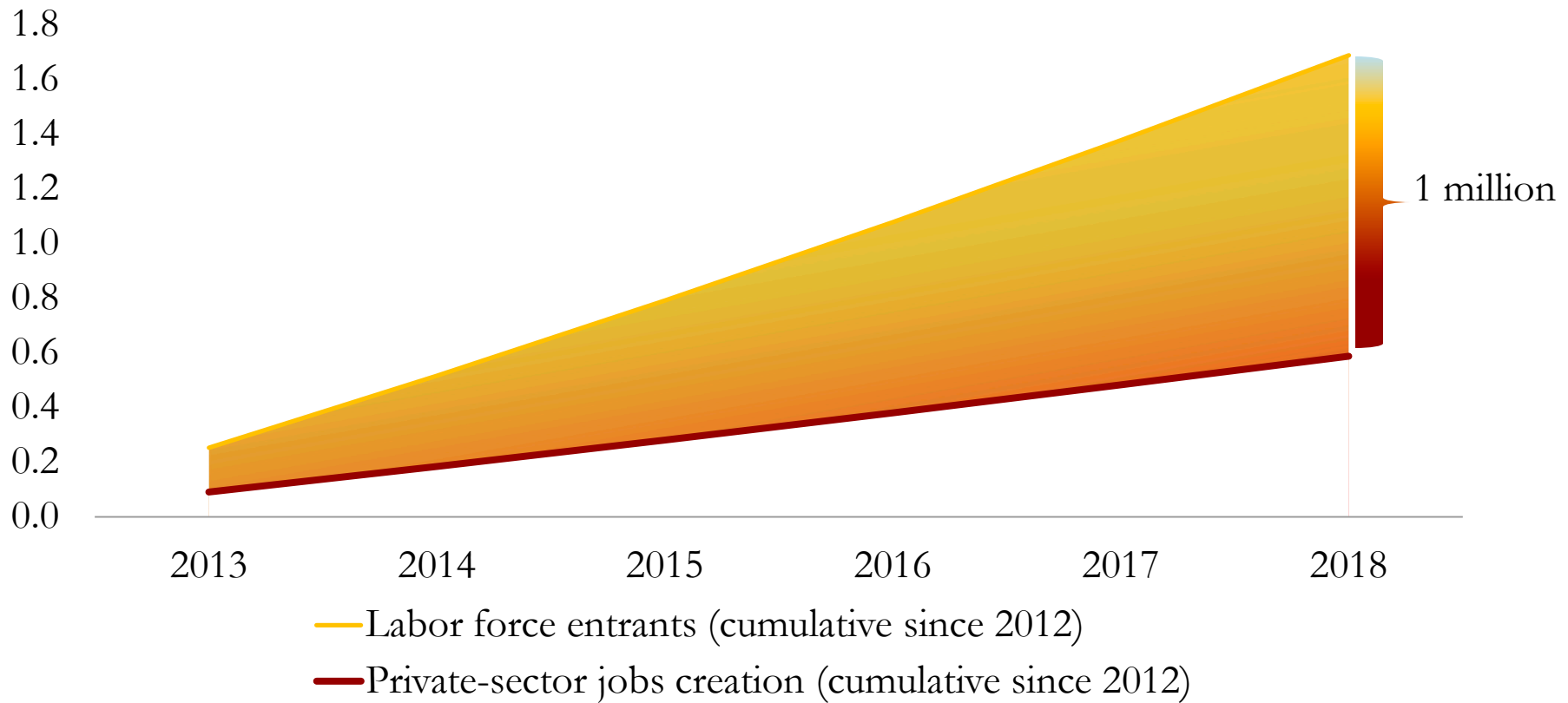


Sources: National authorities; and IMF staff calculations.

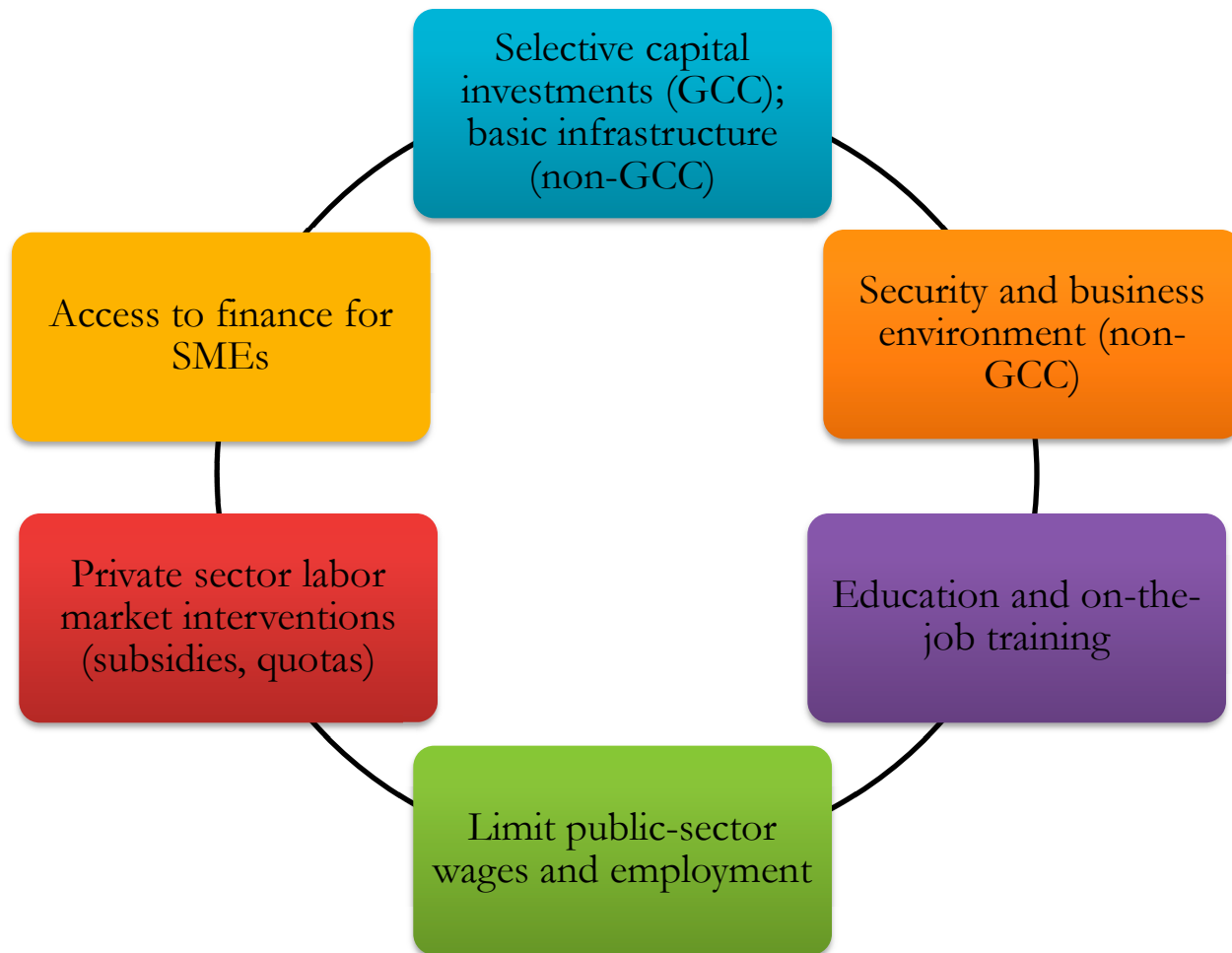
A 1 million jobs deficit?

GCC Nationals

(Millions, 2013-2018)



Comprehensive reforms to increase private-sector growth and employment are needed



Recent developments, outlook, and risks

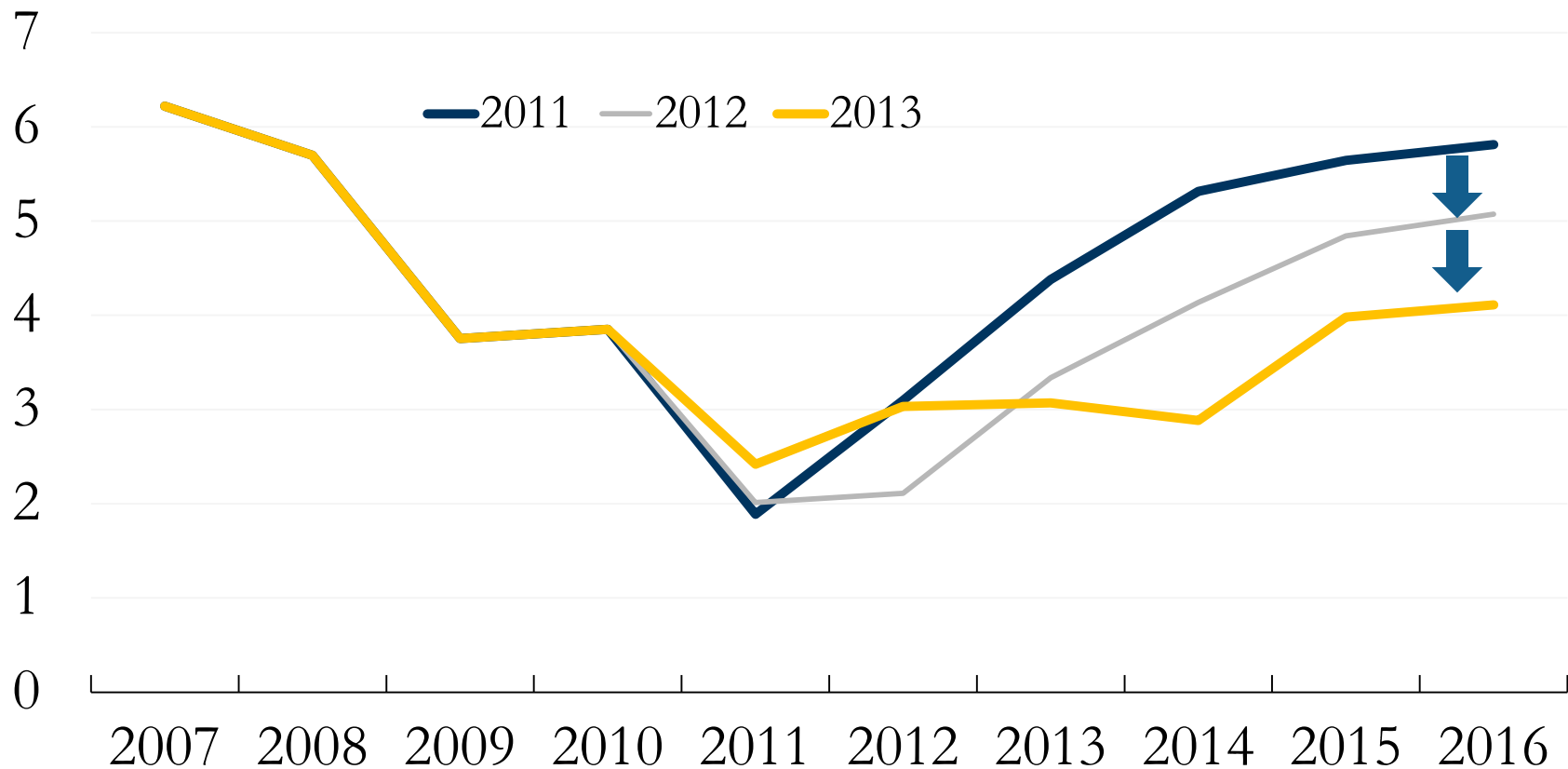
MENAP oil importers



Delayed recovery, weak medium-term prospects

Real GDP Growth

(Percent)



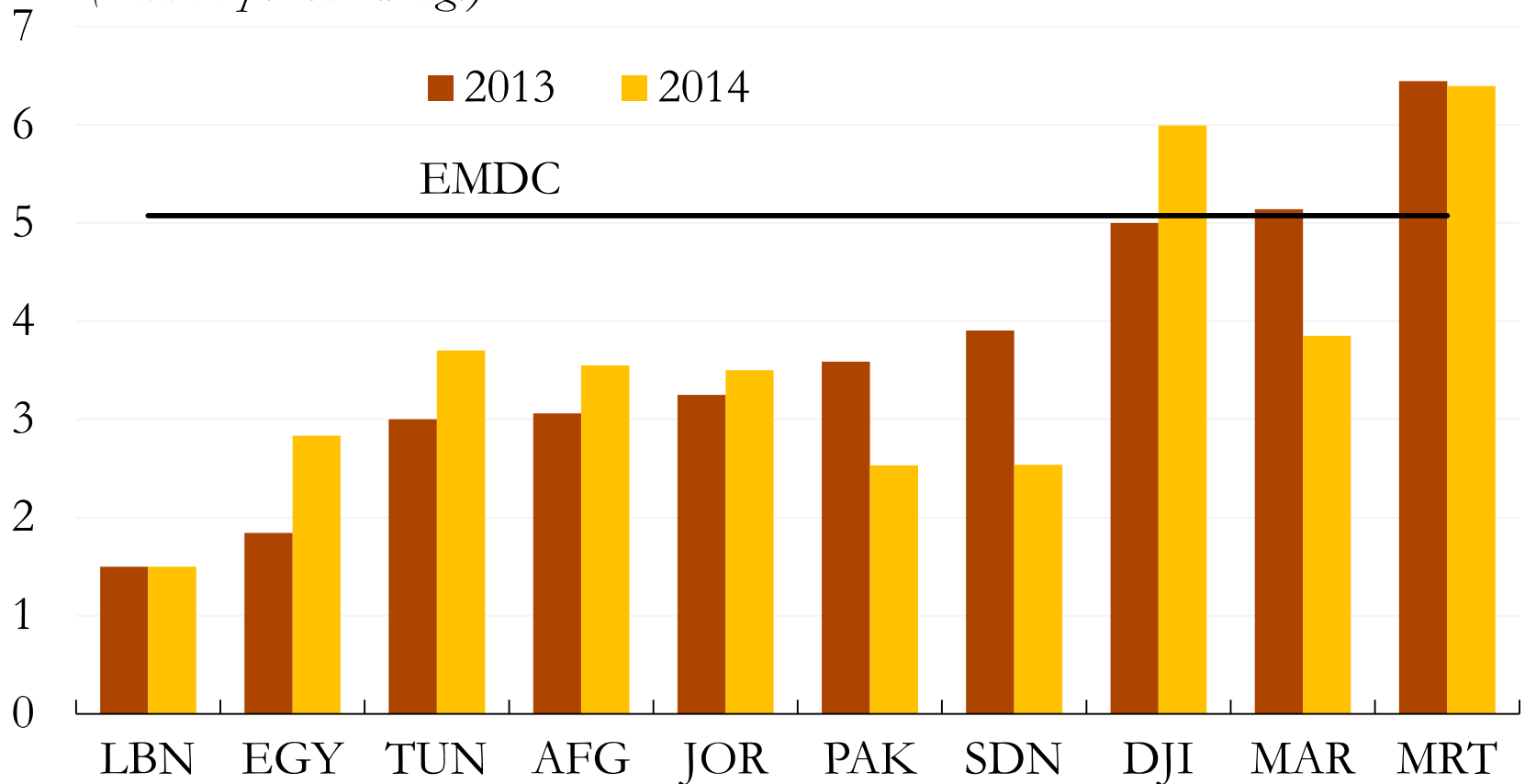
Sources: National authorities; and IMF staff calculations.

MENAP oil importers

Weak growth prevails in most countries

Real GDP Growth

(Annual percent change)



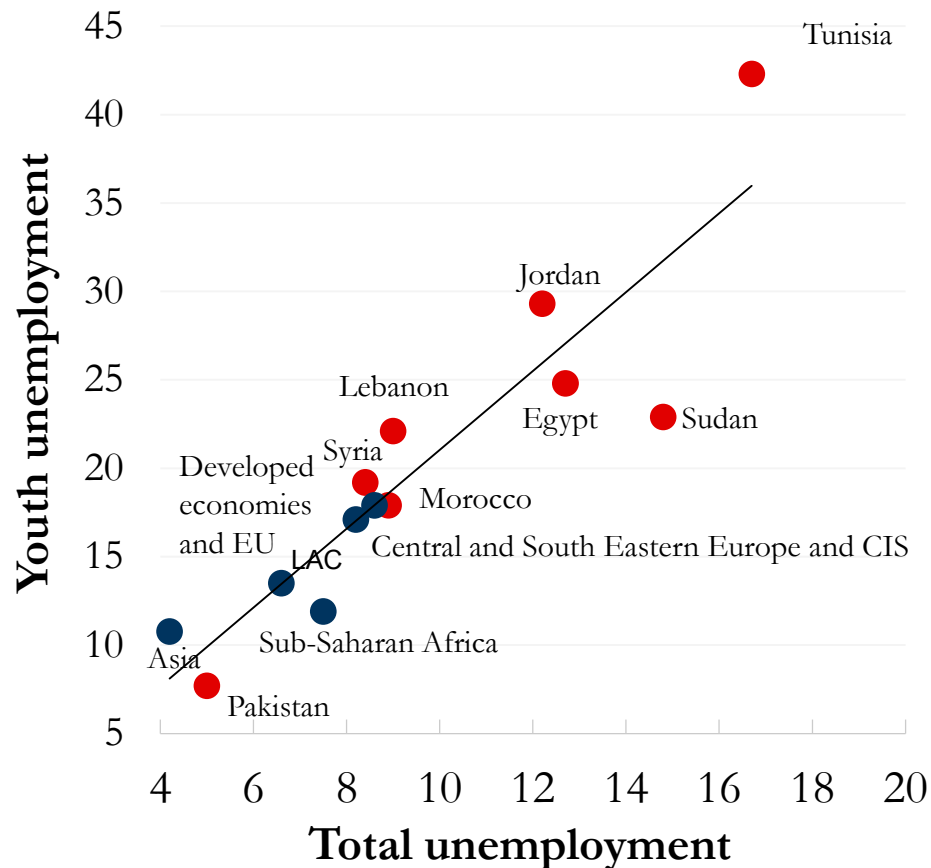
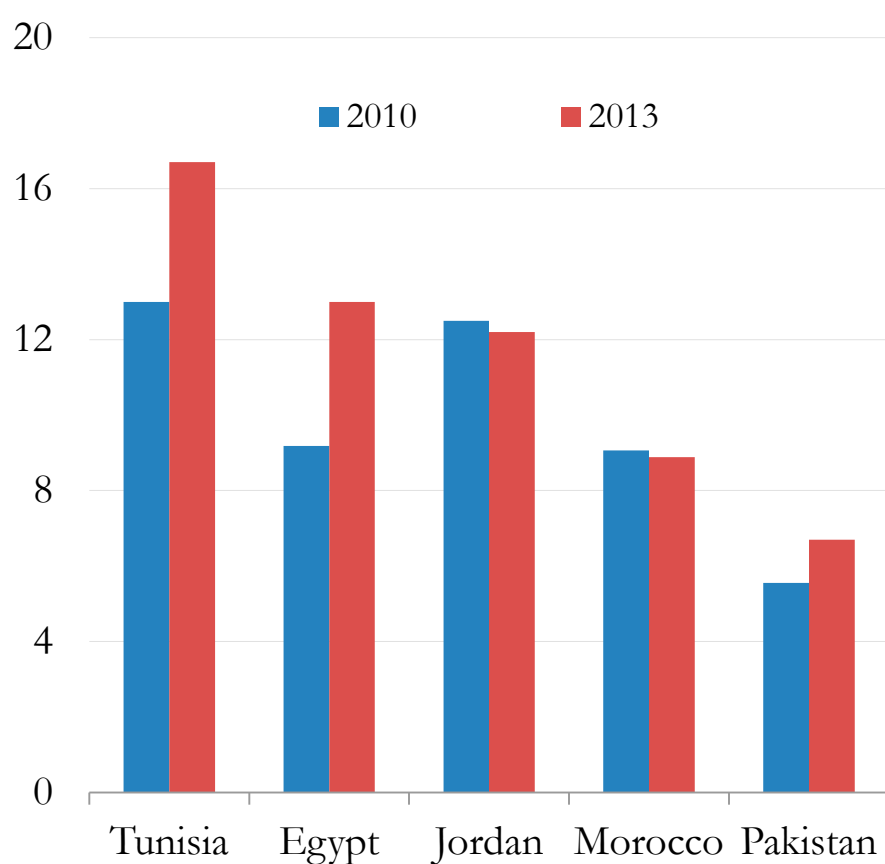
Sources: National authorities; and IMF staff calculations.

MENAP oil importers

Persistently high and rising unemployment fuels social tensions

Unemployment rates

(Latest available date, percent)

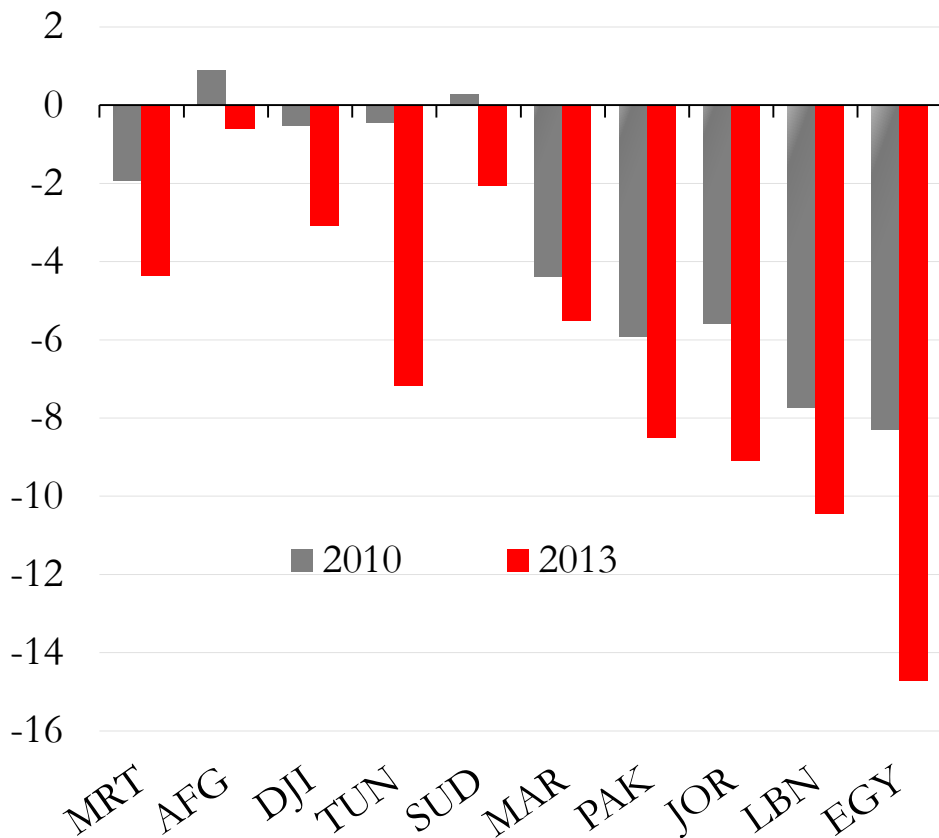


Sources: International Labor Organization; national authorities; and IMF staff calculations.

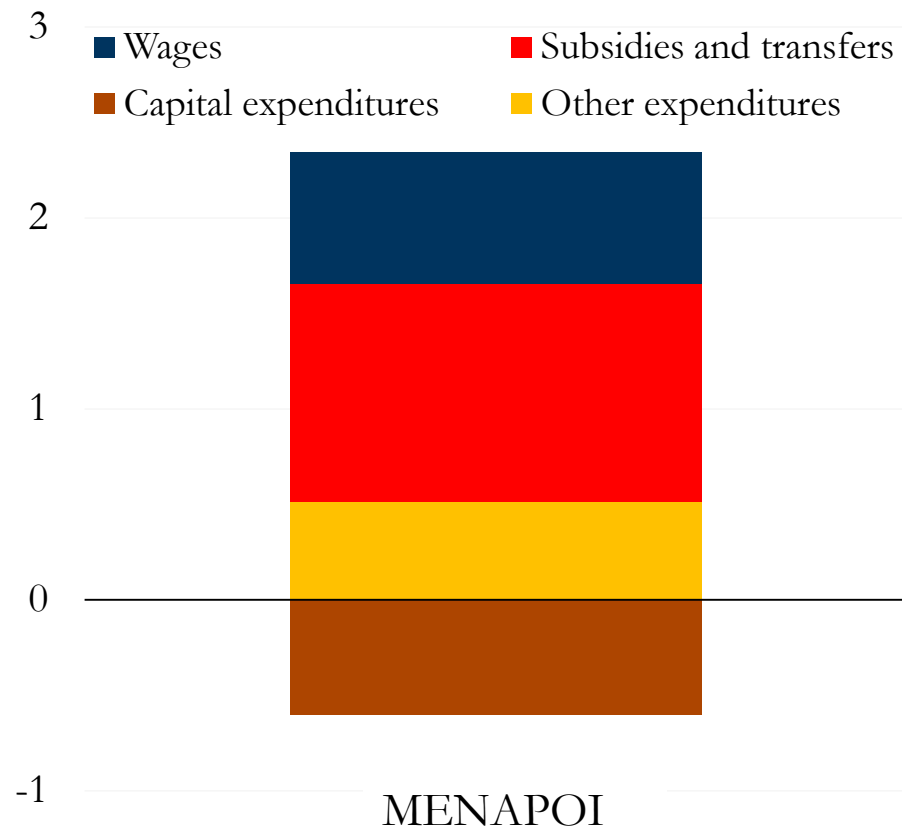
MENAP oil importers

Slow growth and reform delays exacerbate fiscal vulnerabilities

Fiscal balance
(Percent of GDP)



Change in Expenditure
(Percent of GDP, 2010–13)



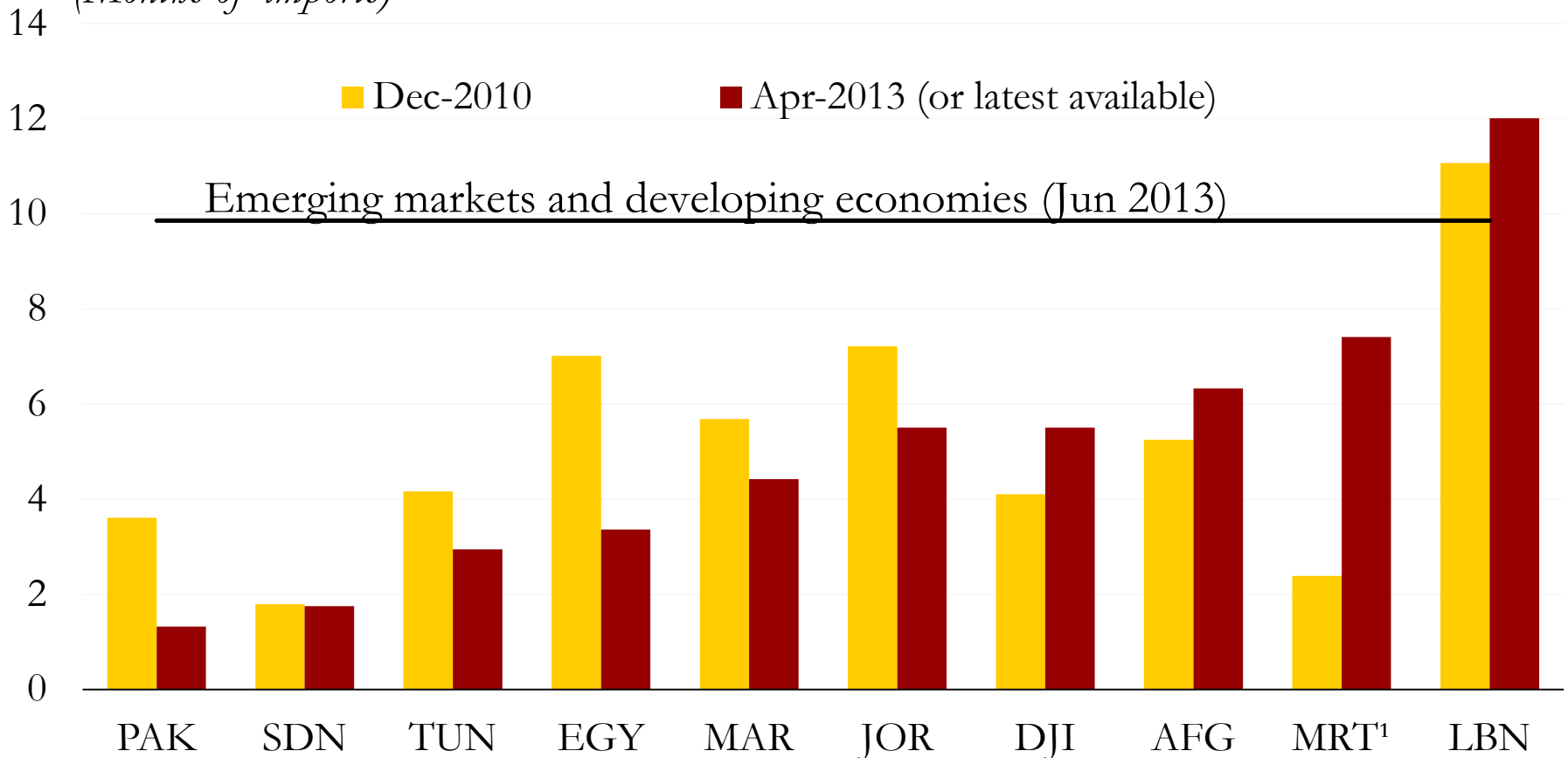
Sources: National authorities; and IMF staff calculations.

MENAP oil importers

Reserves buffers are low

Gross International Reserves

(Months of imports)



Sources: National authorities; and IMF staff calculations.

¹Reserves in months of the following year's imports excluding extractive industries imports.

MENAP oil importers

Complex political transitions impede policy formulation and implementation

2013

- Jordan (Parliamentary election)
- Lebanon (Prime Minister resigns)
- Egypt (Parliamentary election, delayed)
- Pakistan (Parliamentary election)
- Morocco (Coalition moving ahead)
- Egypt (Interim government)
- Tunisia (Political crisis)
- Mauritania (Parliamentary election)

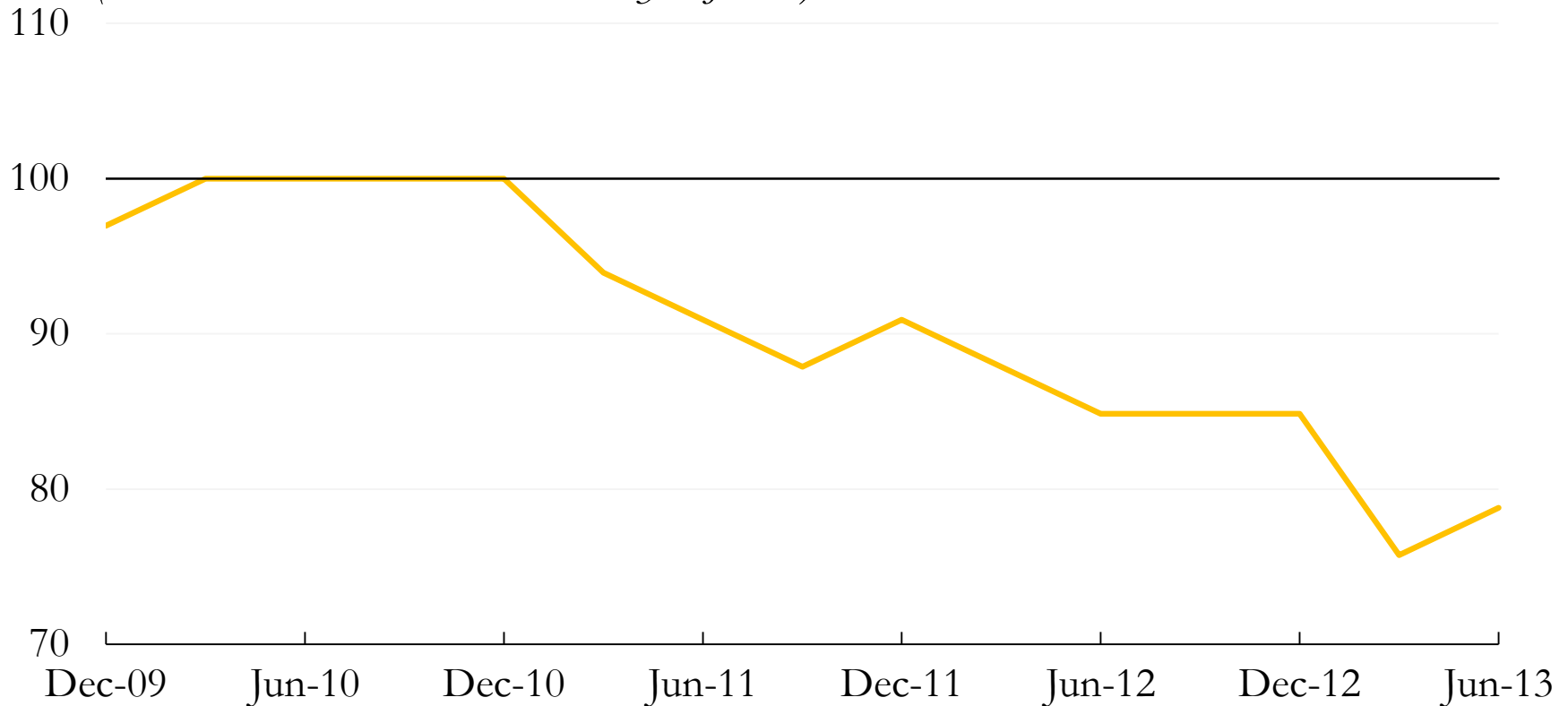
2014-15

- Afghanistan (Presidential election)
- Egypt (Presidential and Parliamentary elections)
- Tunisia (Presidential and Parliamentary elections)
- Lebanon (Presidential election)
- Lebanon (Parliamentary election)
- Sudan (Presidential and Parliamentary elections)

Mounting social, political, and security tensions weigh on confidence

Confidence indicators¹

(Index; Dec 2009=100, seasonally adjusted)



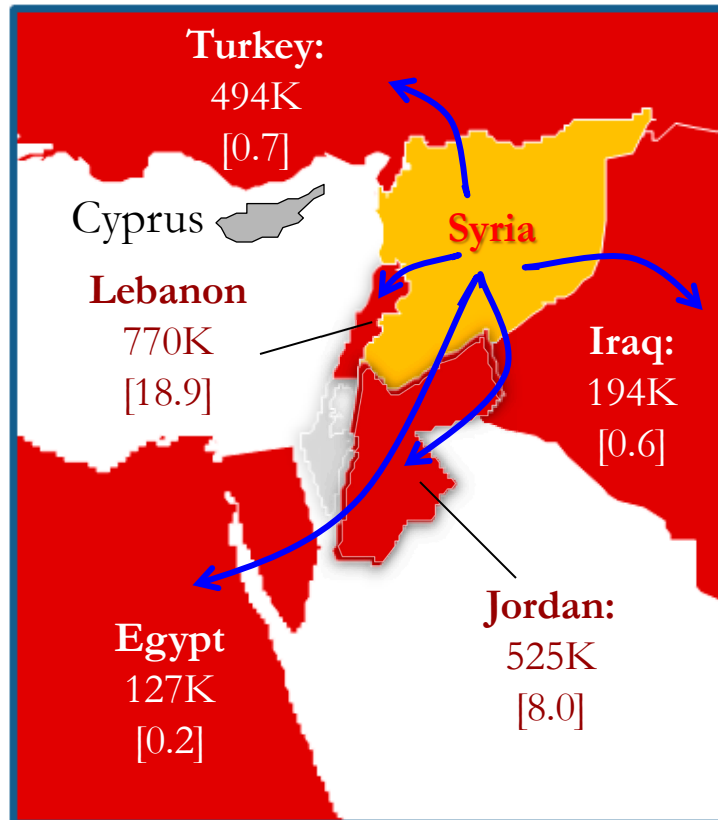
Source: PRS group.

¹Average of consumer confidence indices for Egypt, Jordan, Lebanon, Morocco, Pakistan, Sudan, Syria, and Tunisia.

MENAP oil importers

Spillovers from Syria intensify social and security risks

Estimate of refugee flows from Syria¹



Total outside Syria:
2.1 million

Internally displaced:
about 5.0 million

- ❖ Refugees
- ❖ Disruptions to bilateral and transit trade
- ❖ Declining tourism
- ❖ Sectarian violence

Sources: UN Refugee Agency, Information Sharing portal : Syria Regional Refugee Response.

¹As of September 29, 2013. Figures reflect the number of refugees registered or awaiting registration.

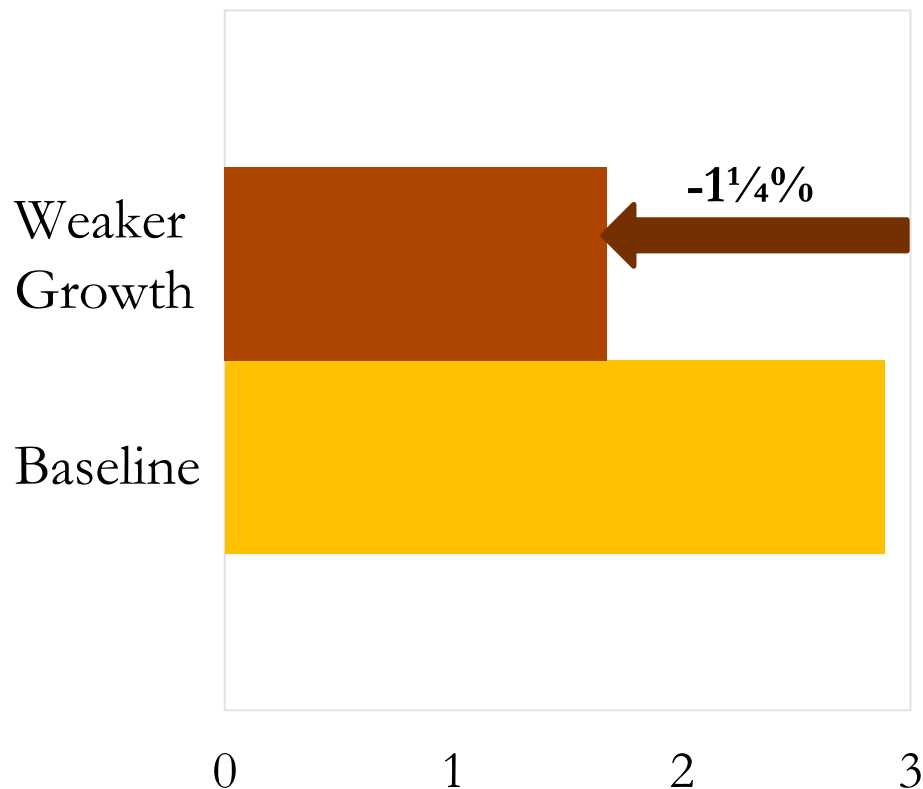
Figures in square brackets denote the share of Syrian refugees in the host country's population.

MENAP oil importers

Downside risks are significant and can further weaken the economy and reduce jobs

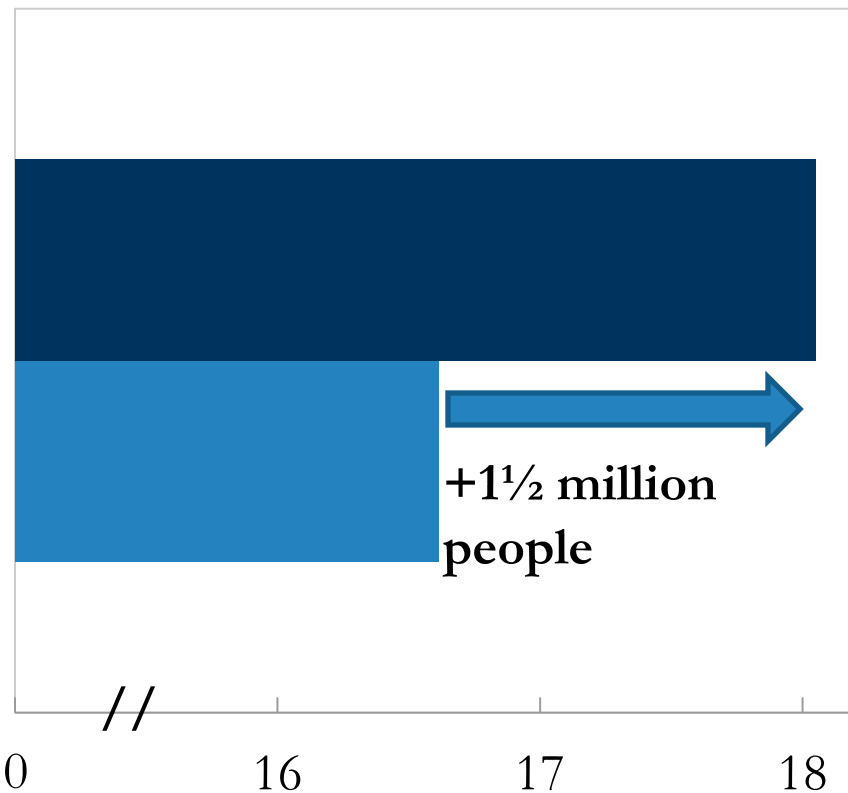
Real GDP Growth, 2014

(Percent)



Unemployment, 2014

(Millions of people)



Sources: National authorities, ILO, Trading Economics forecasts; and IMF staff calculations.

MENAP oil importers

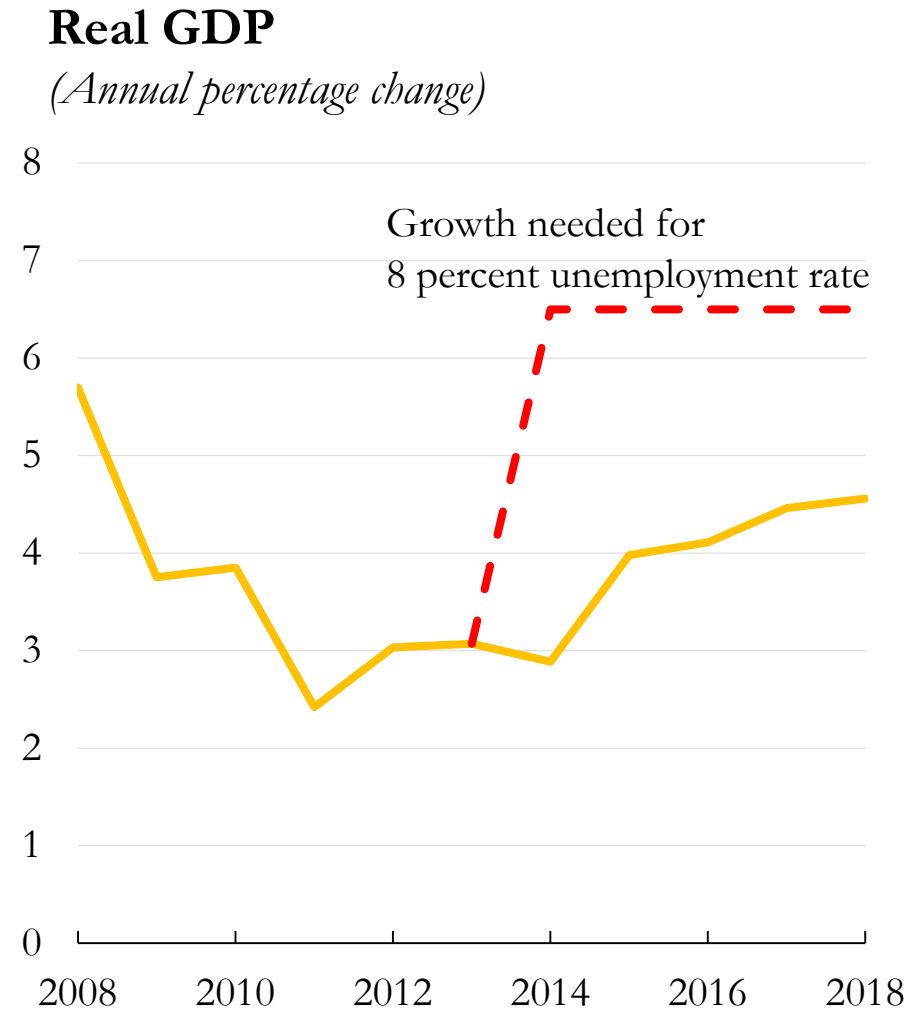
Urgent actions needed in three areas to achieve sustainable and inclusive growth

- 1 Creating jobs by orienting public spending toward investment
- 2 Improving fiscal sustainability and rebuilding buffers
- 3 Embarking without delay on structural reforms to raise potential growth and enhance equity



Shoring up growth and creating jobs

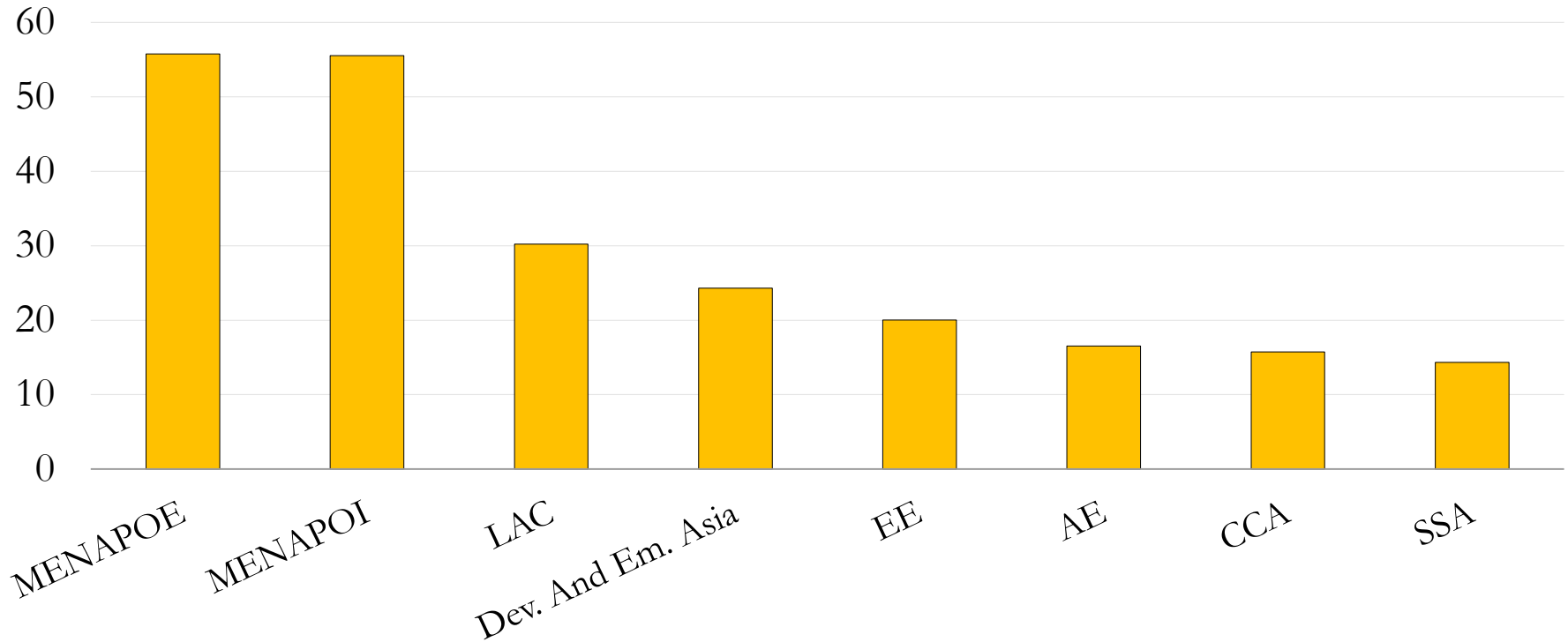
- Increasing productive public investment
- Bringing in additional external financing
- Invigorating initiatives to improve business climate



\$1 trillion opportunity from higher female labor force participation

Gender Gaps in Labor Force Participation^{1,2}

(Percentage points, average 2000-11)



Sources: World Bank, World Development Indicators; and IMF staff estimates.

¹Defined as male less female labor force participation rate.

²AE: Advanced Economies; DEA: Developing and Emerging Asia; EE: Emerging Europe; LAC: Latin America and the Caribbean.

Achieving fiscal sustainability

Reorient spending

- Increase capital, health, education spending
- Increase targeted safety nets
- Cut generalized subsidies

Mobilize revenues

- Broaden tax base
- Raise income tax progressivity
- Raise excises and taxes on high value properties

Raising potential growth and making it more inclusive through structural reforms



Takeaways

❖ Oil exporters:

- Oil GDP growth to resume in 2014 but subject to considerable oil production and price uncertainty
- Saving more will strengthen fiscal resilience to oil revenue shocks and arrest the deterioration in fiscal and external positions
- Job creation requires structural reforms supplemented with measures to encourage private sector employment for nationals

❖ Oil importers:

- Complex political transitions and social and security tensions thwart economic recovery under looming fiscal and external vulnerabilities
- Maintaining macroeconomic stability and promoting growth prospects, jobs, and better living standards:
 - Reorient expenditures and mobilize revenues
 - Ignite structural reforms

Thank you!

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