

Middle East and Central Asia Regional Economic Outlook October 2011



الشرق الأوسط وآسيا الوسطى
آفاق الاقتصاد الإقليمي
عدد أكتوبر ٢٠١١



Overview

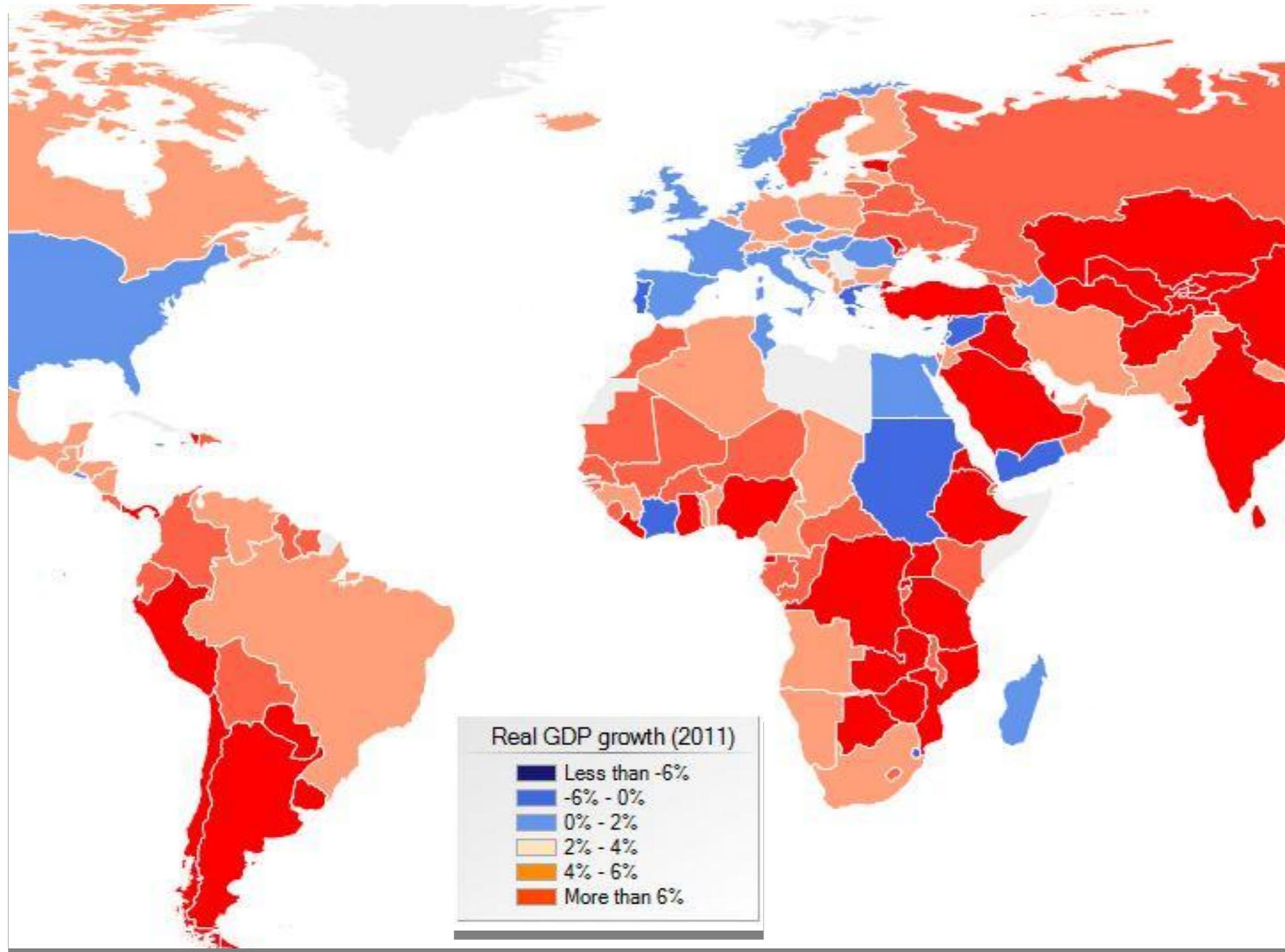
Global Outlook

MENAP Oil Exporters

MENAP Oil Importers



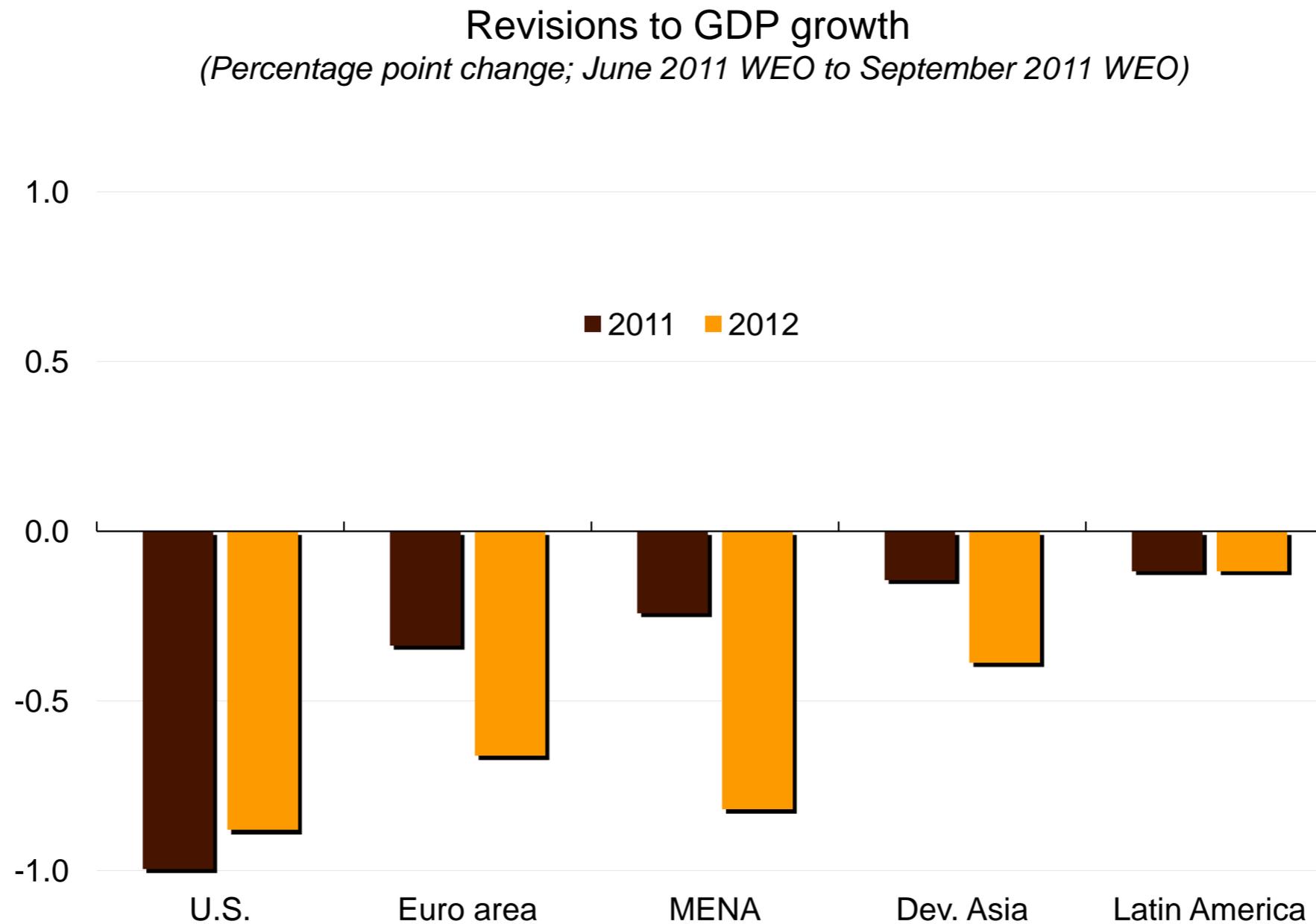
Uneven recovery



Source: IMF, *World Economic Outlook*.



Global outlook has weakened

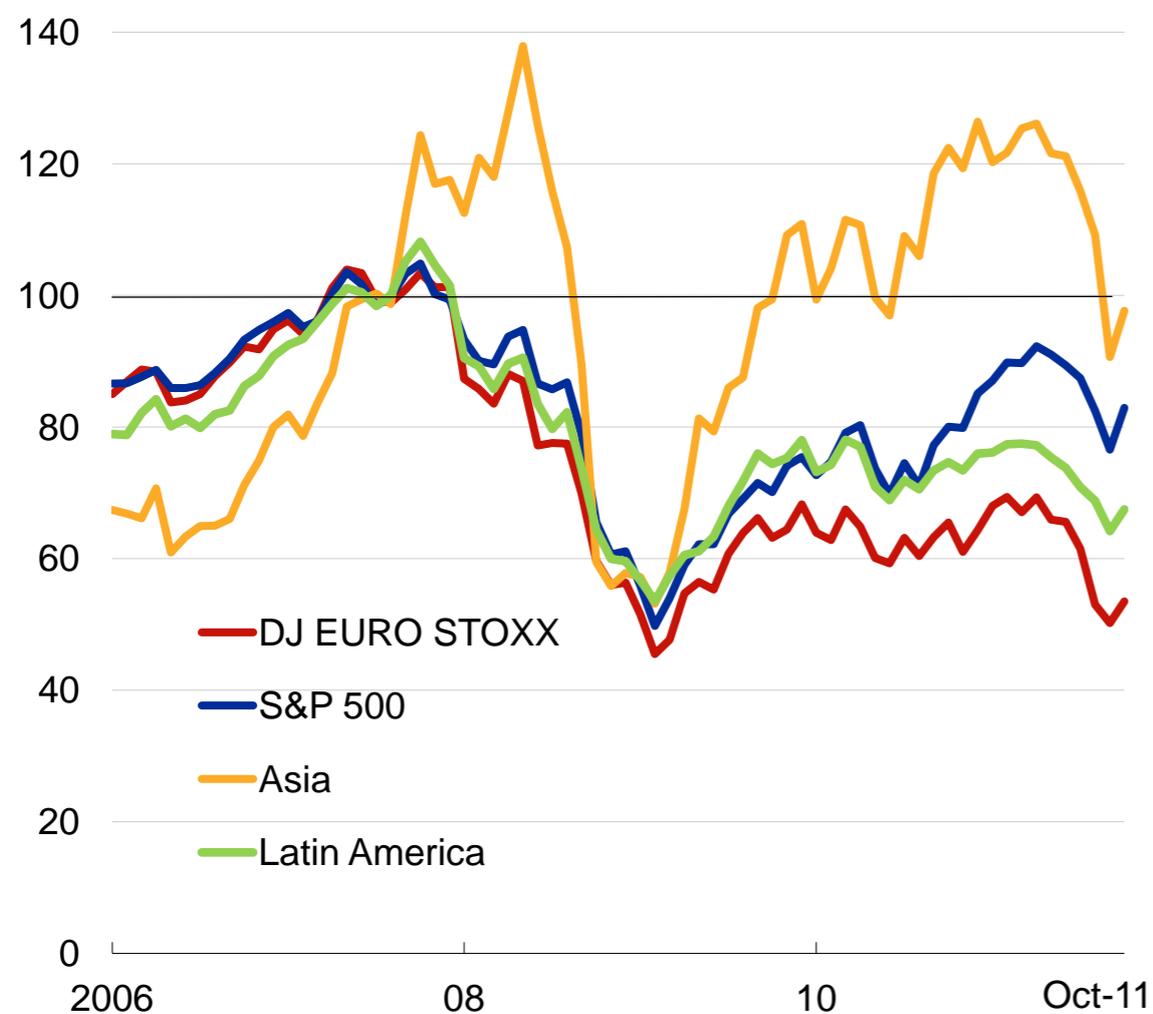


Sources: National authorities; and IMF staff calculations.

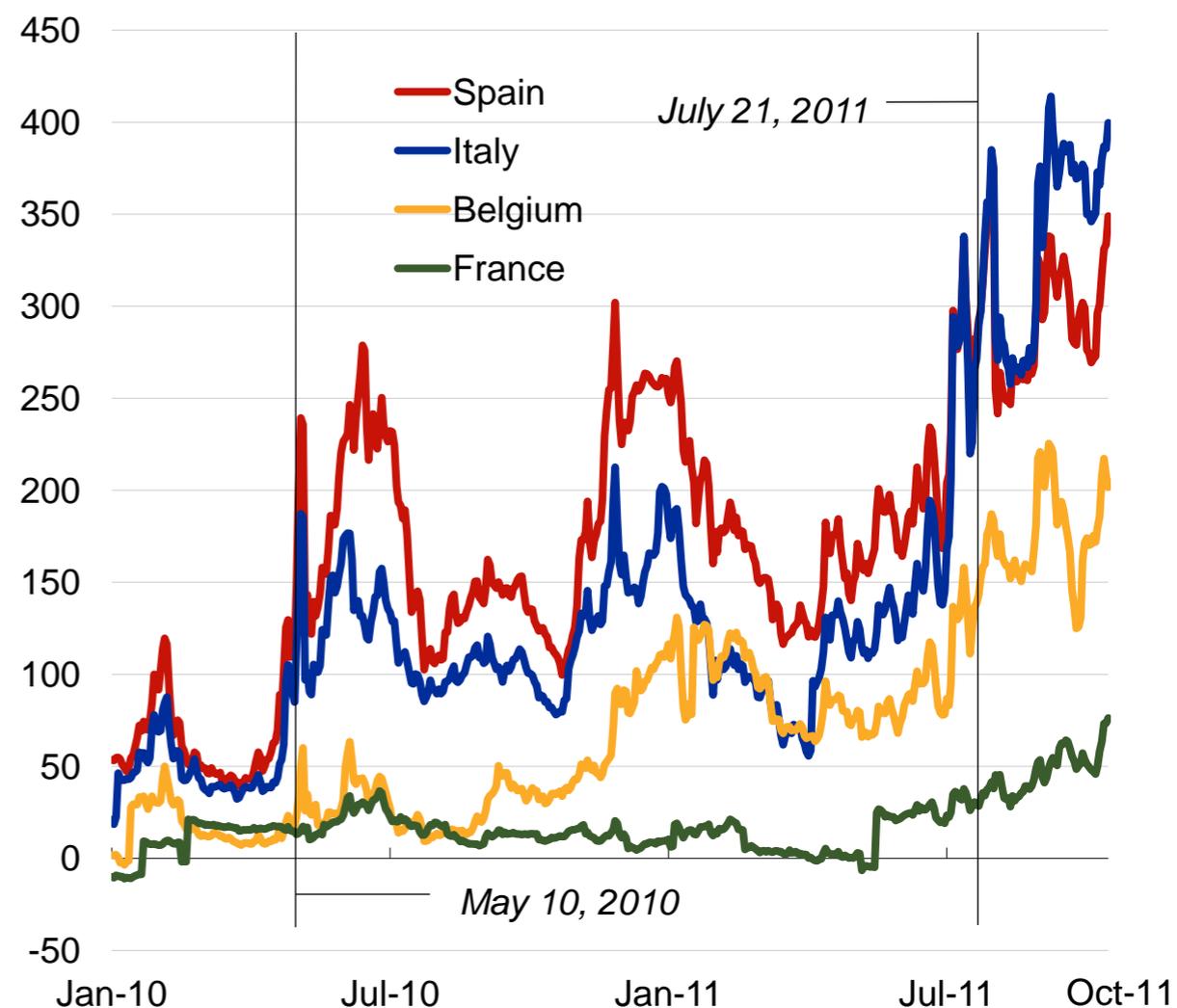


Equity markets have fallen, financial stability risks have increased

Equity markets
(Index; 2007=100; national currency)



Government bond spreads
(Two-year yield spreads over German bunds; basis points)

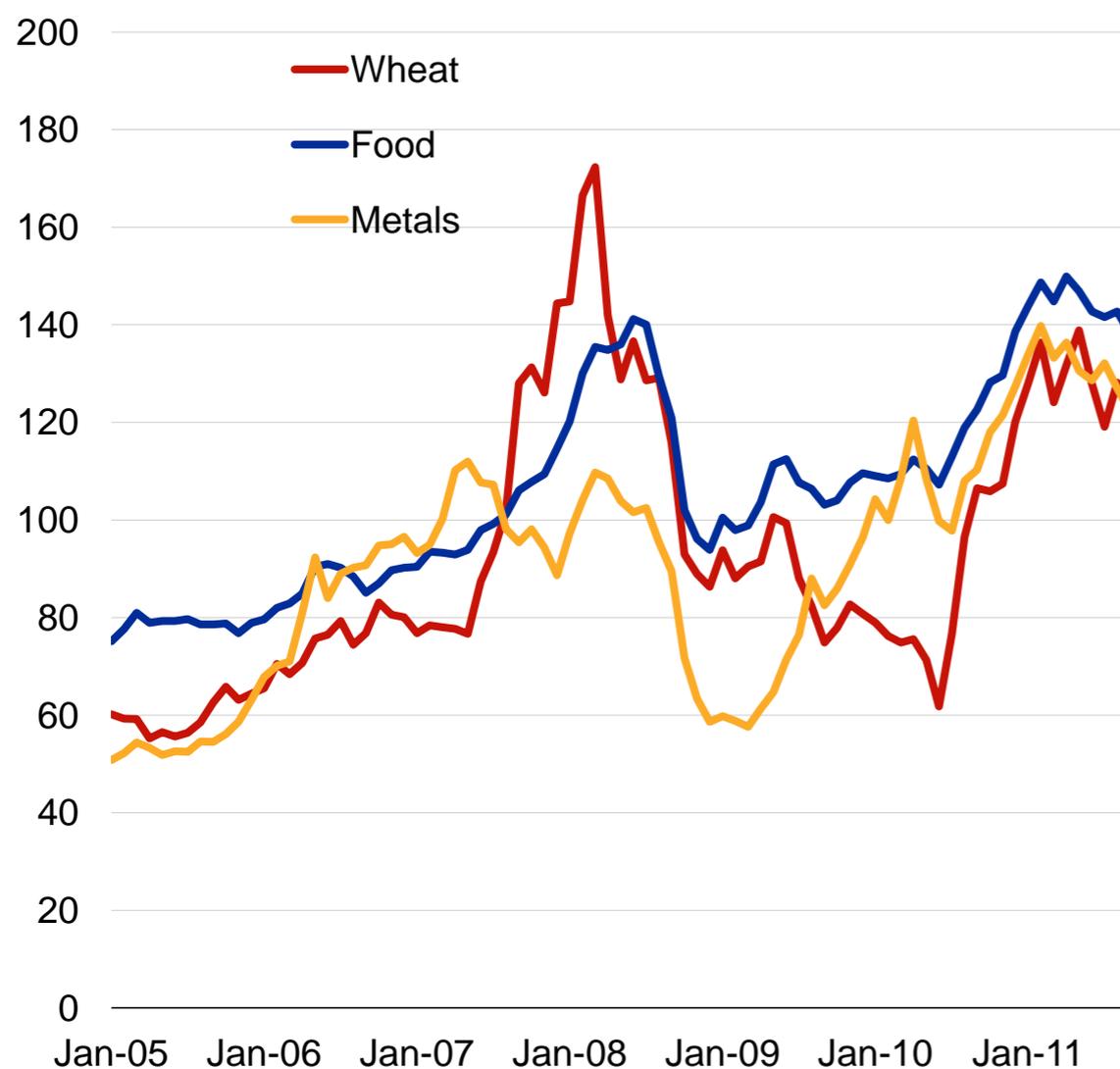


Source: IMF, *World Economic Outlook*.



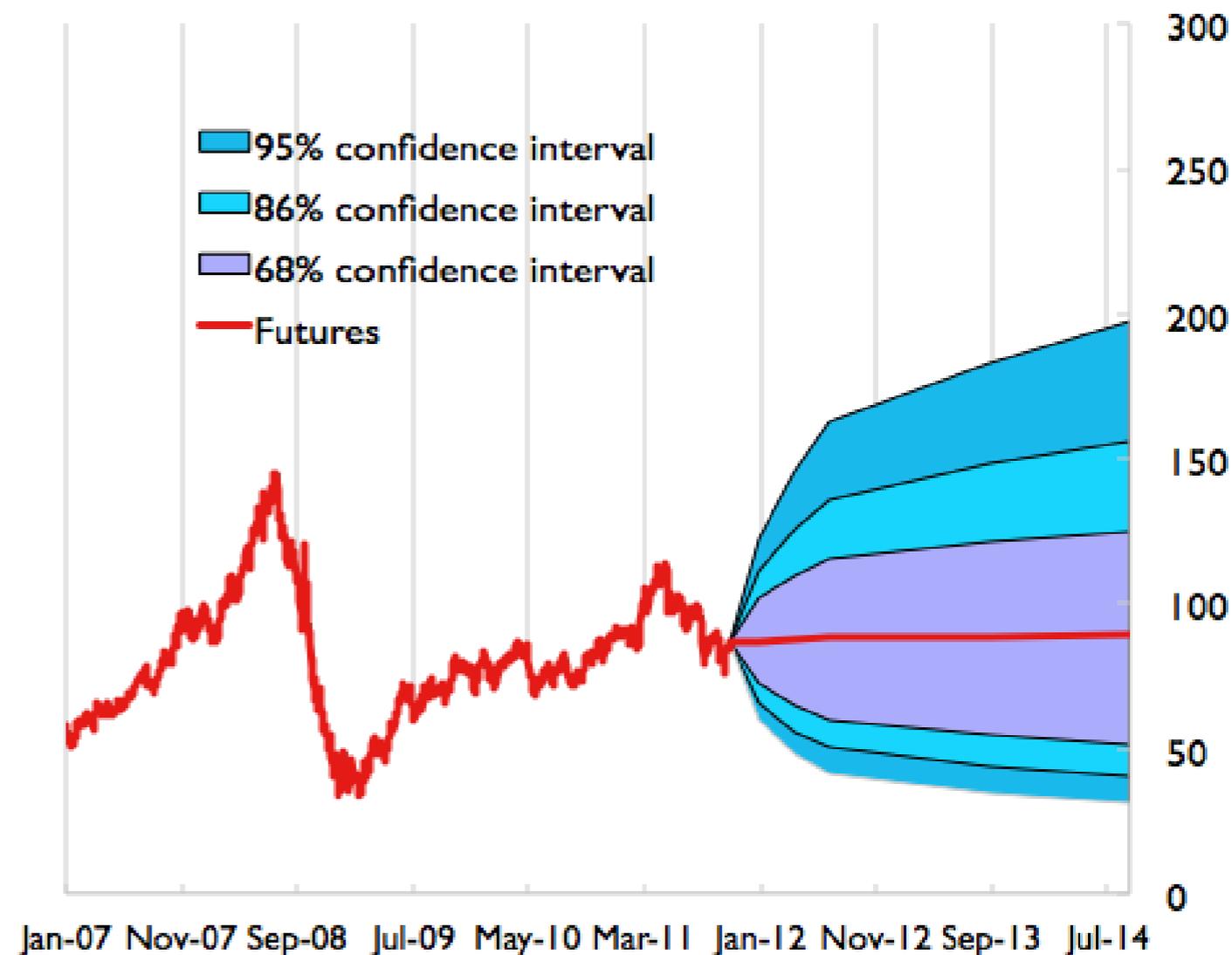
Commodity prices remain high

Global commodity price developments
(Price indices; 2007=100)



Source: IMF, *World Economic Outlook*.

Oil price prospects
(U.S. dollars a barrel)



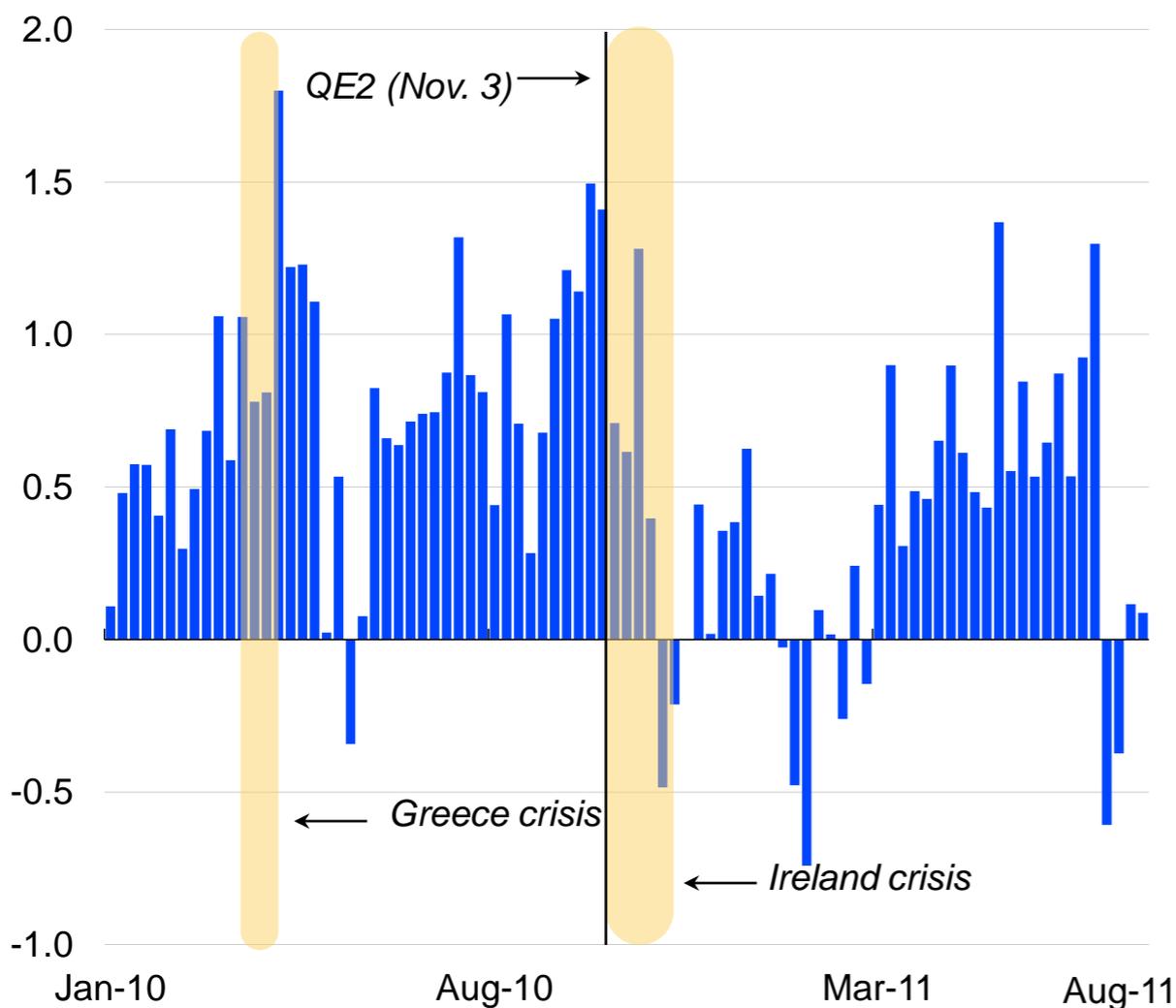
Sources: Bloomberg; and IMF staff calculations.

Note: Derived from prices of futures options on October 17, 2011.

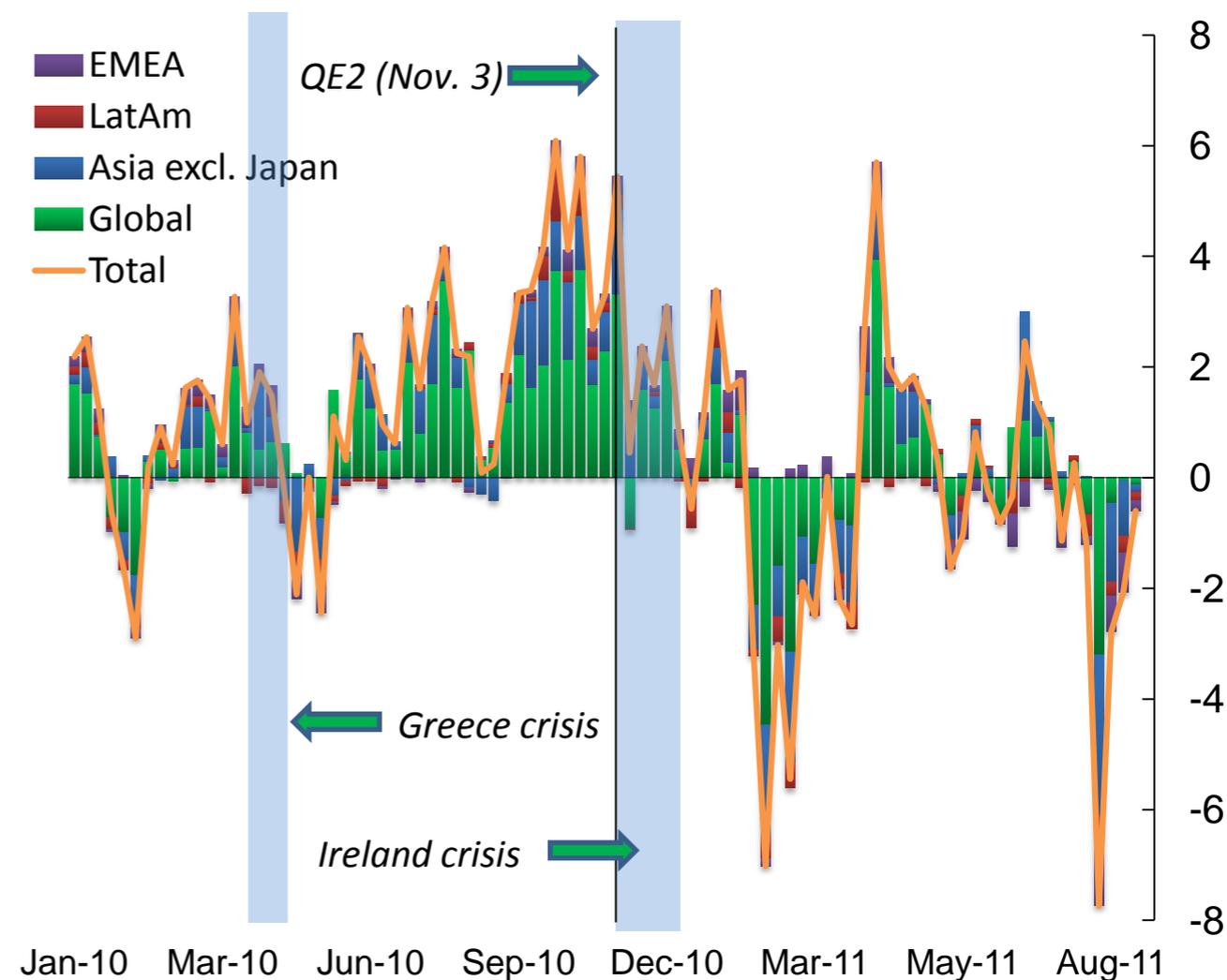


Capital flows to EM have turned negative

Bond fund flows to emerging markets
(Billions of U.S. dollars, weekly flows)



Equity fund flows to emerging markets
(Billions of U.S. dollars, weekly flows)



Source: EPFR, Global.

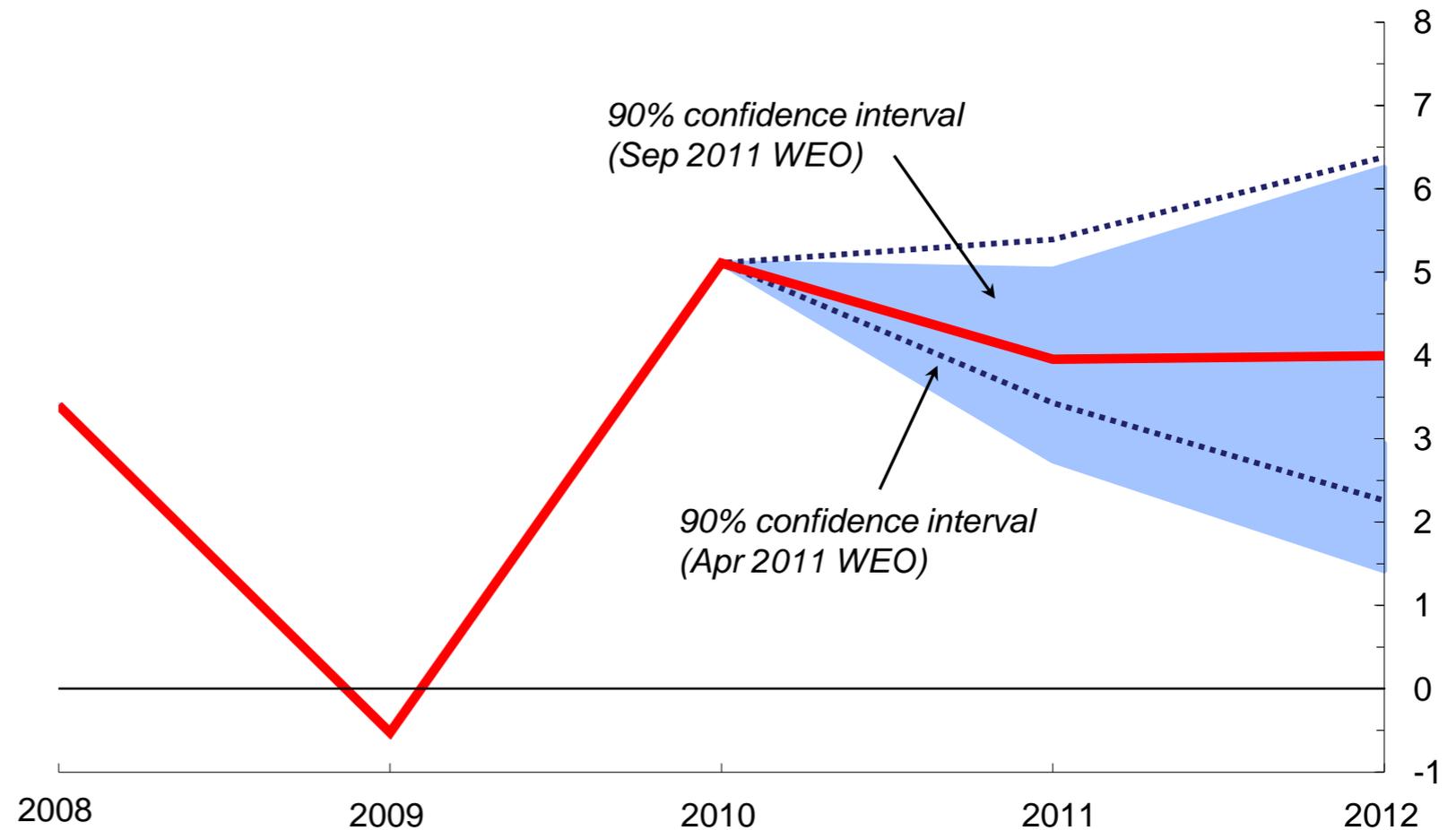


Downside risks have increased

Downside risks:

- Euro area crisis
- Advanced economy sovereign risks
- Escalating global financial volatility
- Oil supply concerns (risk of higher oil prices)

Prospects for world GDP growth
(Annual percent change)



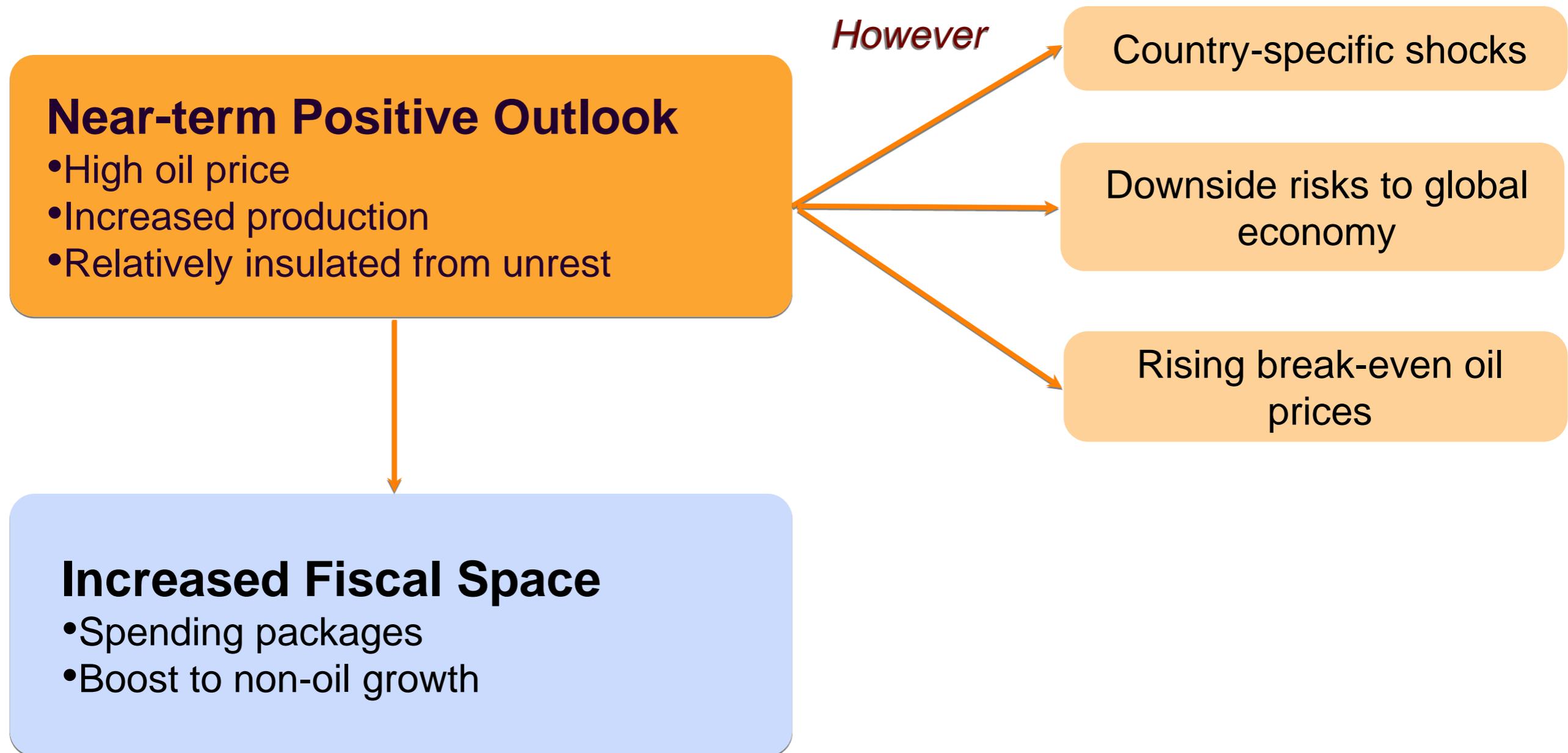
Source: IMF, *World Economic Outlook*.



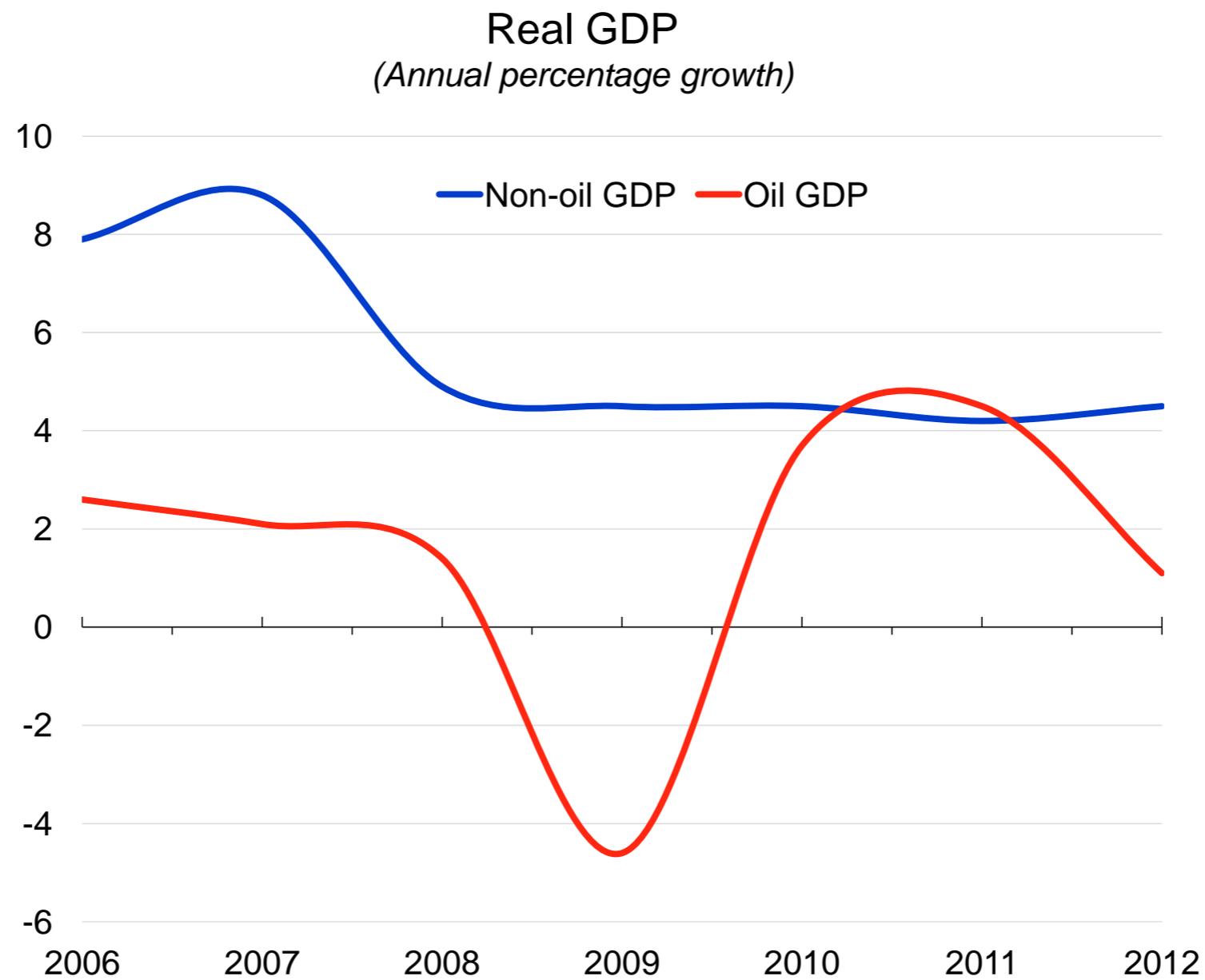
MENAP oil exporters



MENAP oil exporters: positive outlook, but growing risks



Oil sector spurs temporary uptick in 2011...

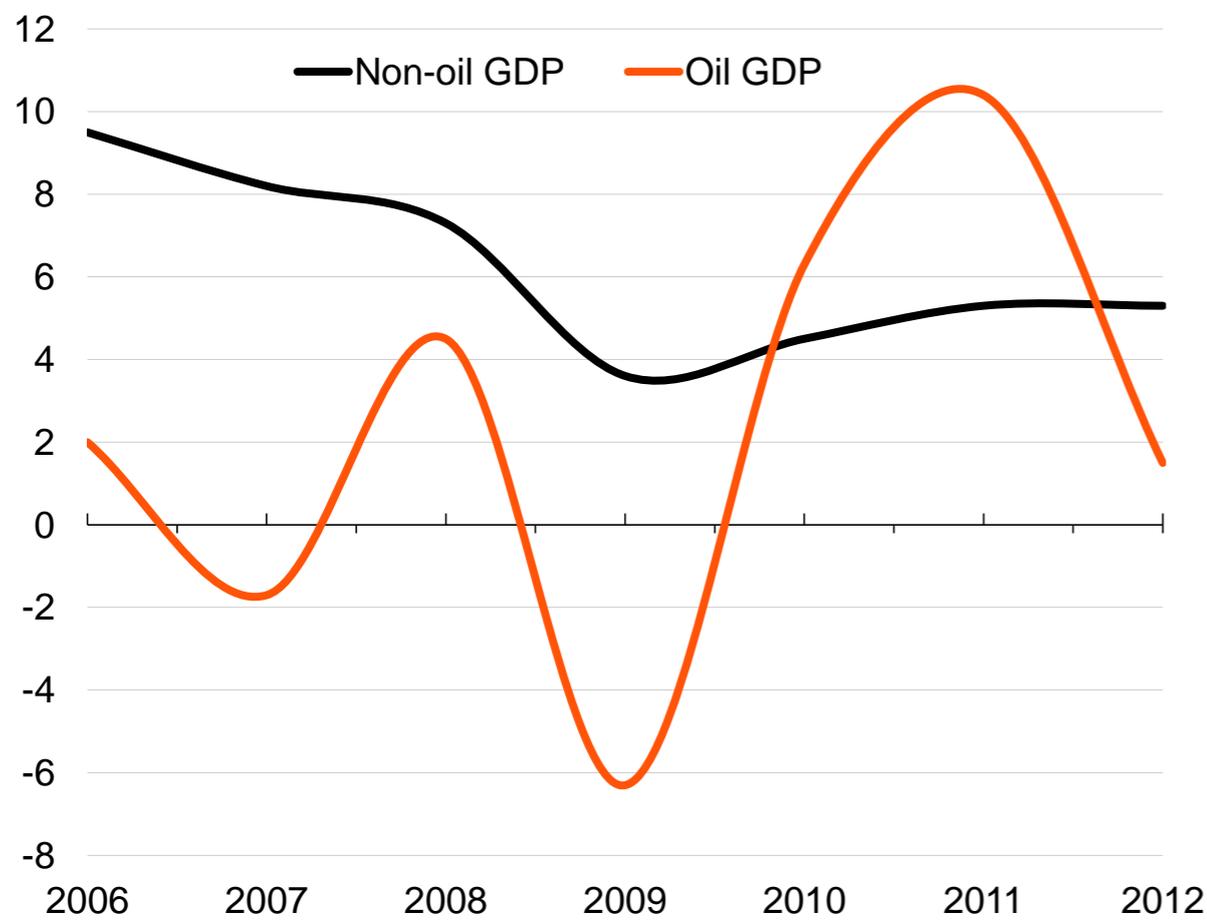


Sources: National authorities; and IMF staff calculations.

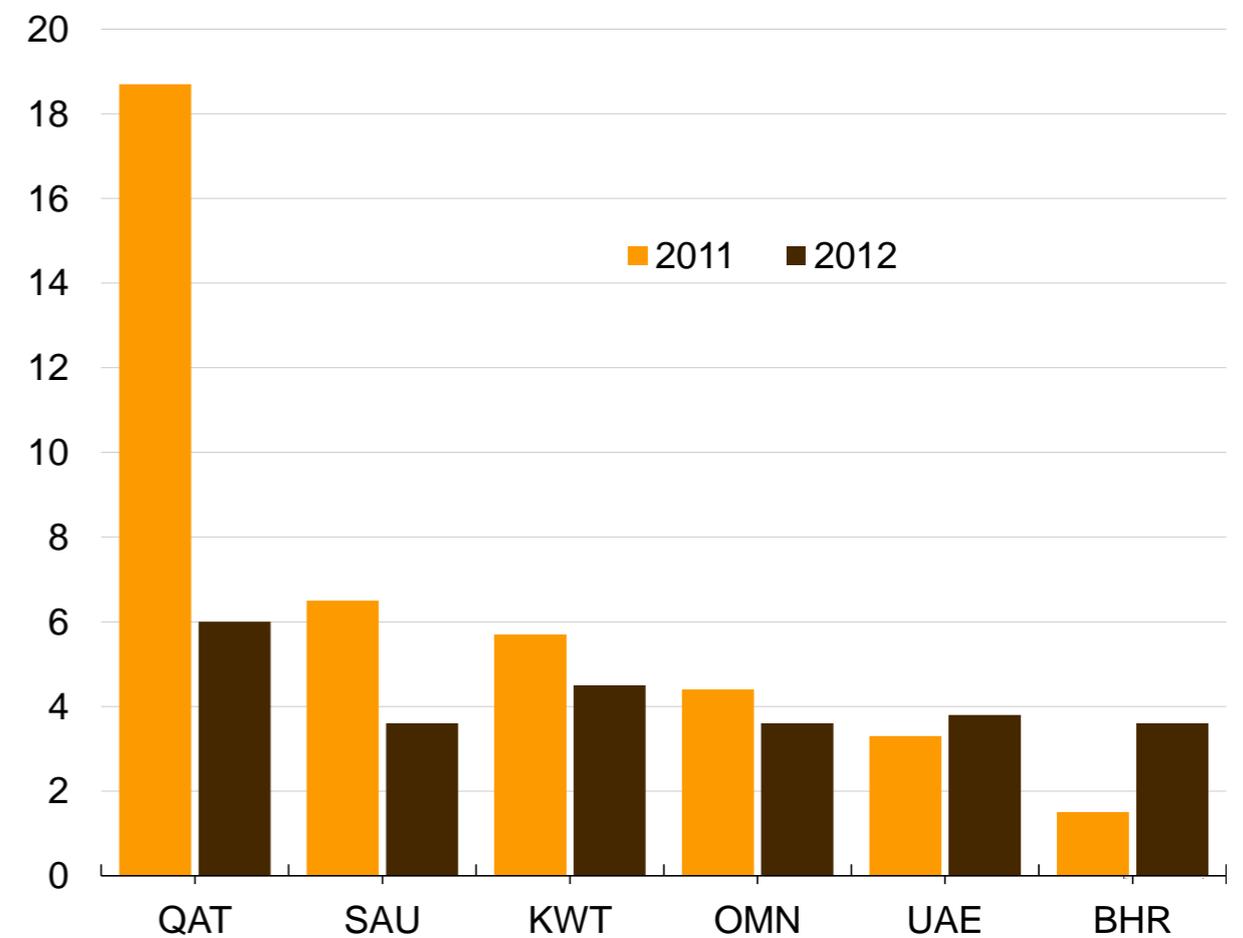


... particularly for the GCC

Real GDP in GCC countries
(Annual percent change)



Real GDP
(Annual percent change)

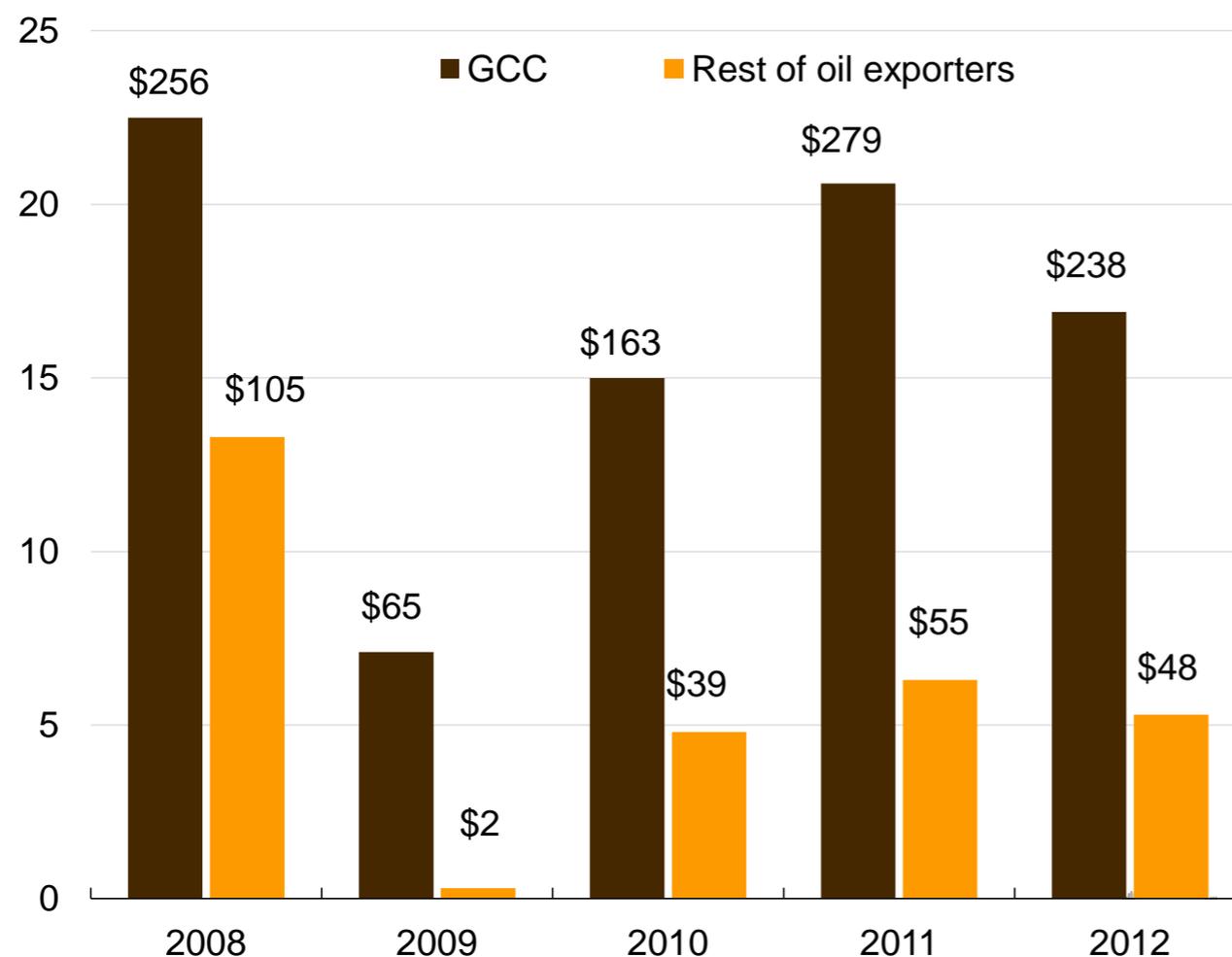


Sources: National authorities; and IMF staff calculations.

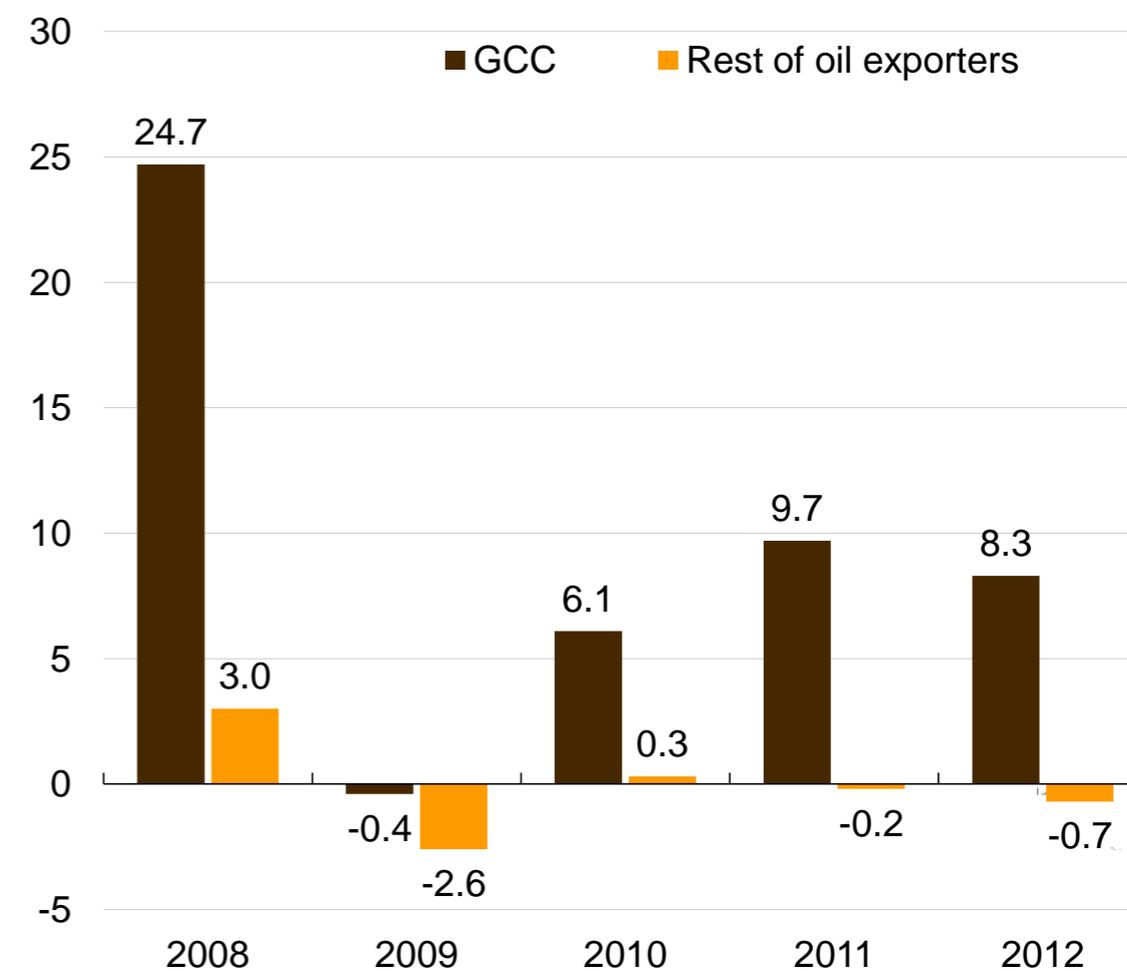


Current account and fiscal balances improve further

Current account balances
(Percent of GDP and billions of U.S. dollars)



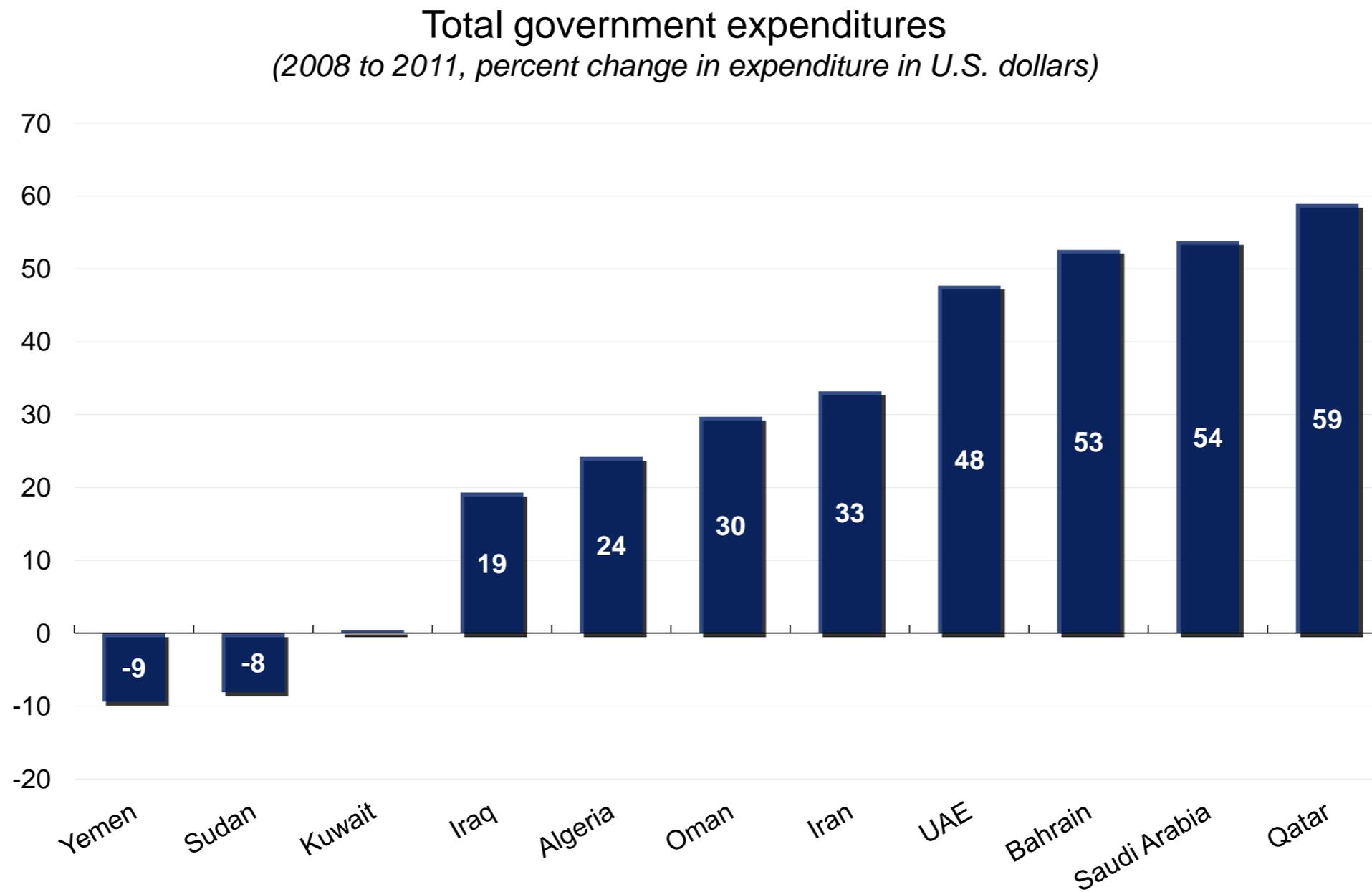
Overall fiscal balances
(Percent of GDP)



Sources: National authorities; and IMF staff calculations.



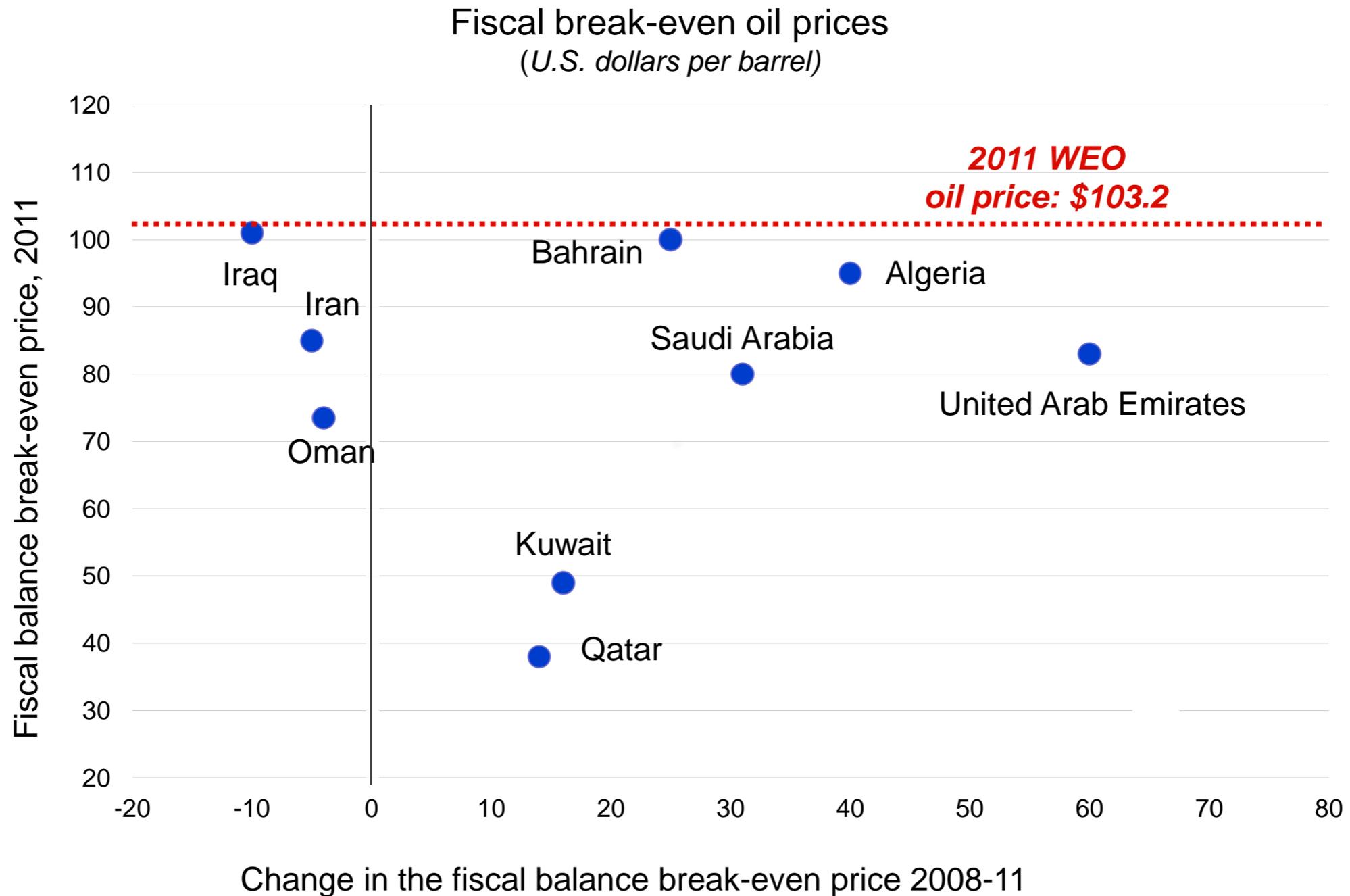
... although spending has been ratcheting up



Sources: National authorities; and IMF staff calculations.



Vulnerability to downward oil price shocks has increased



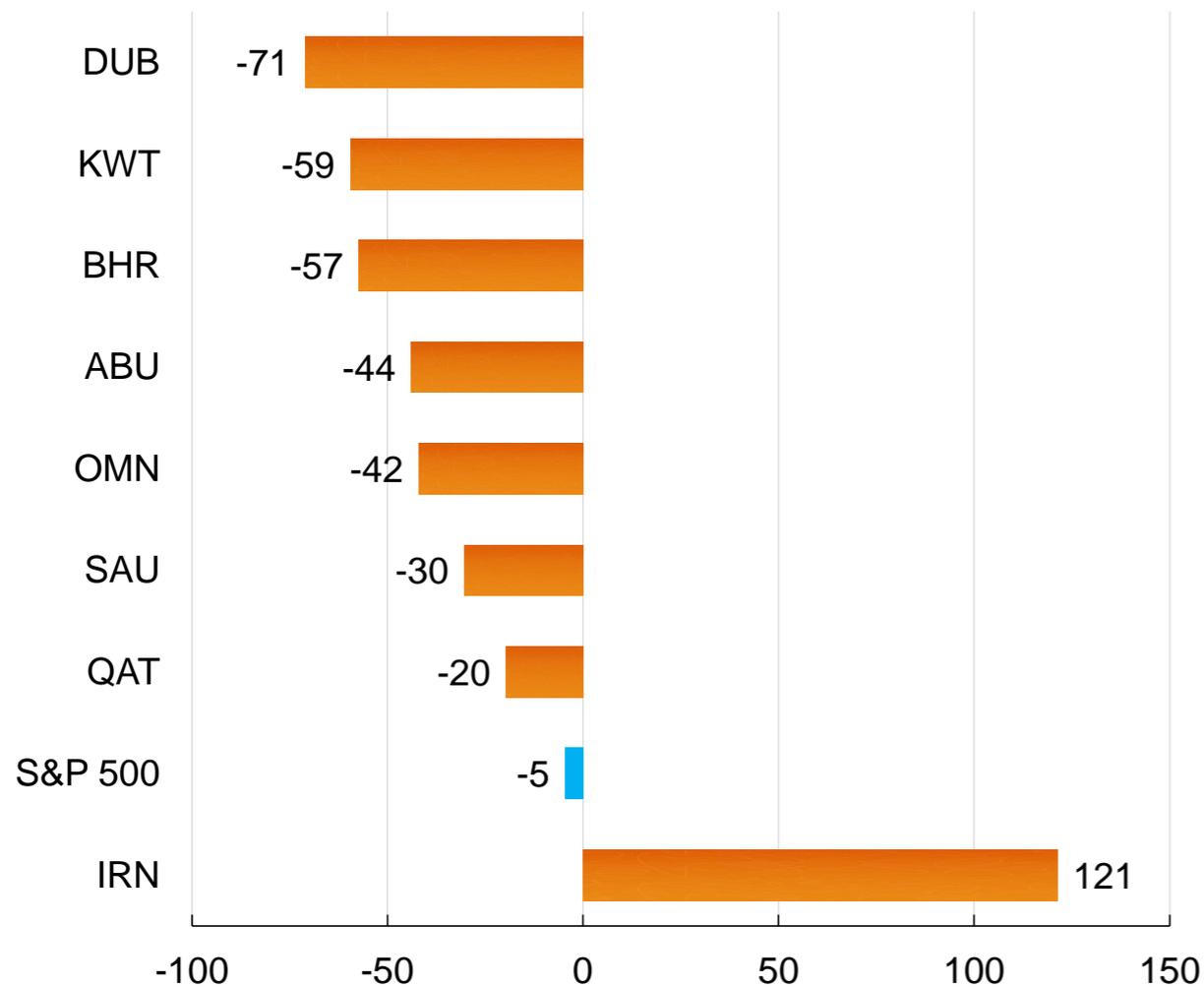
Sources: National authorities; and IMF staff calculations.



Market conditions have not returned to pre-Lehman levels

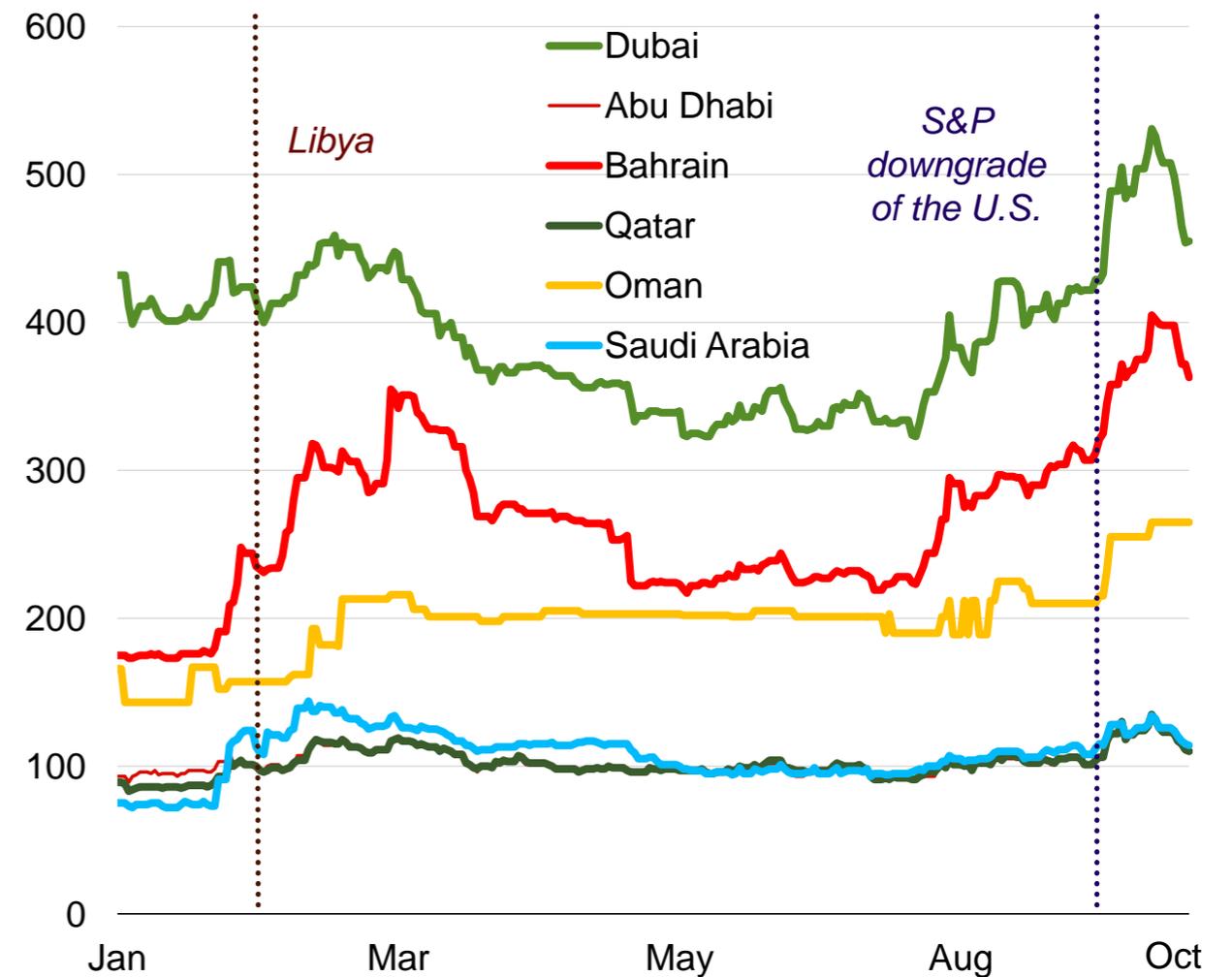
Stock market indices

(Percent changes from Aug 31, 2008 to Oct 14, 2011)



Credit default swap spreads

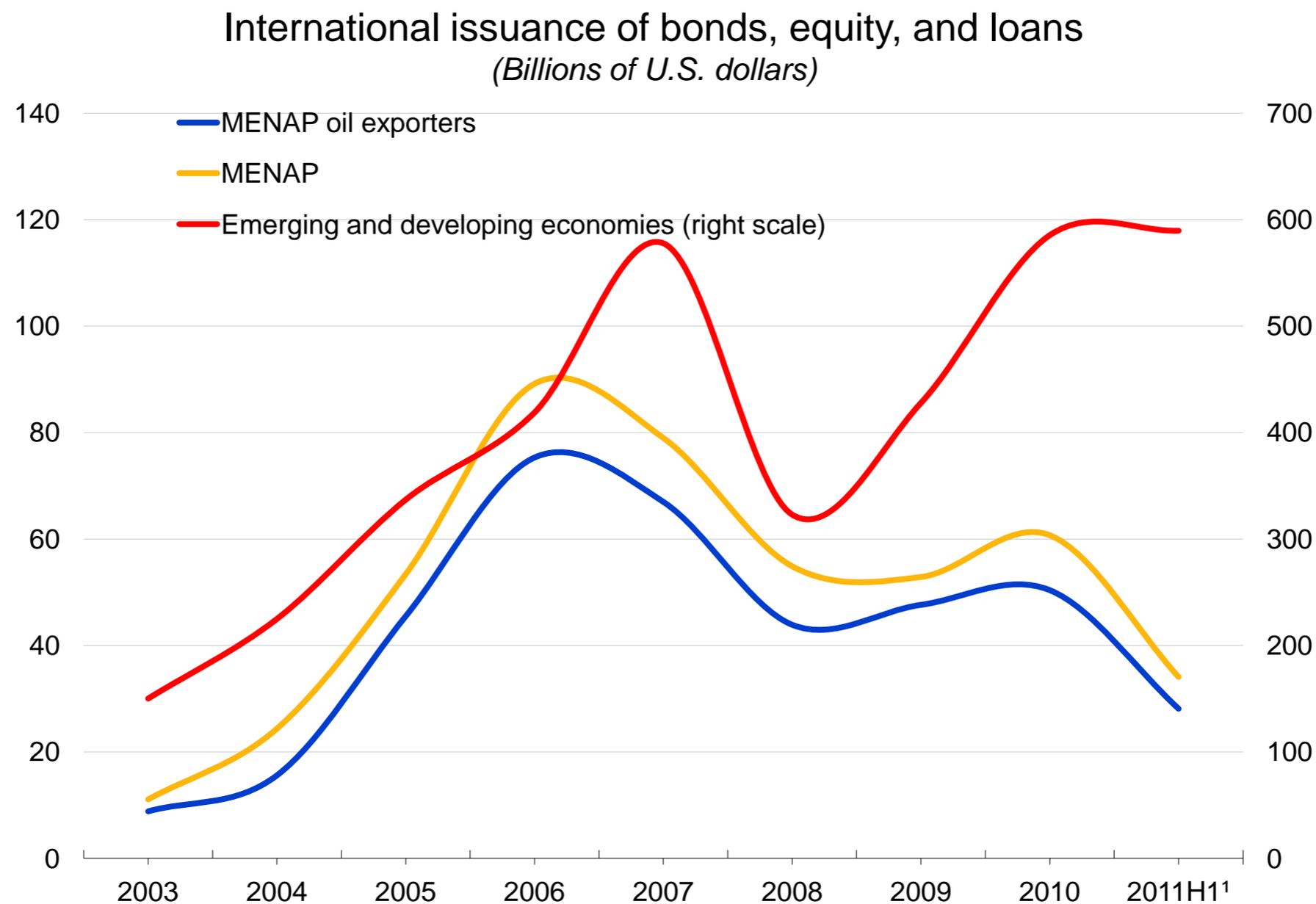
(Basis points, Jan 1 - Oct 14, 2011)



Sources: Bloomberg; national authorities; and Markit.



Capital inflows are still modest by international standards



Sources: National authorities; and IMF staff calculations.
¹Annualized.



Policy to remain supportive, but prepare for the long run

Fiscal policy for the long haul:

- Some consolidation
- Diversify revenue base
- Assure efficient/equitable spending allocation
- Move away from product-based subsidies
- Budgets set in multiyear frameworks

Monetary policy for stability and growth:

- Tightening needed in some non-GCC countries
- Develop macroprudential toolkit & EWS

- **Diversification**
- **Employment creation**
- **Inclusiveness**

Structural reforms:

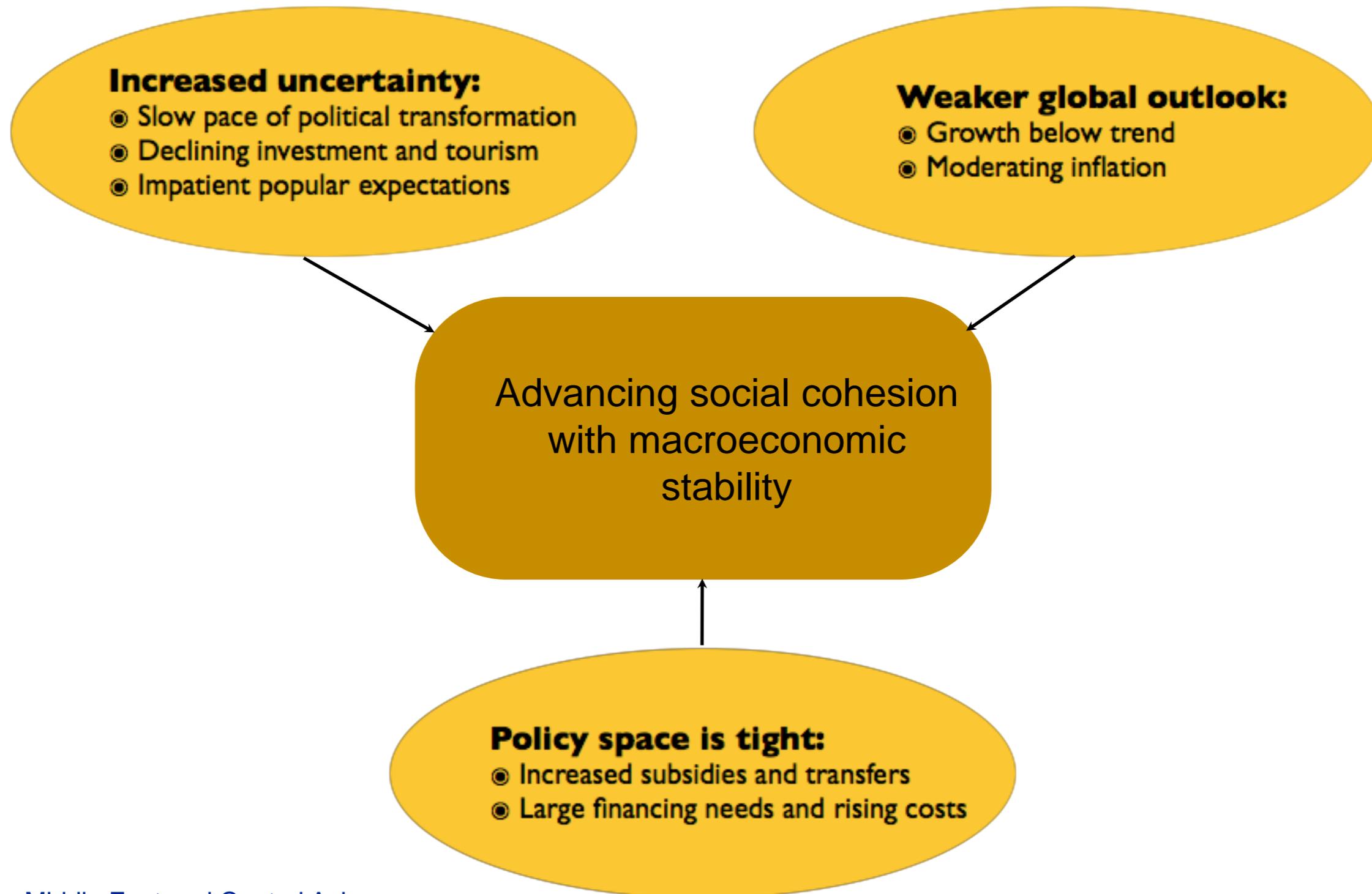
- Business environment and governance
- Employment promotion
- Bank governance and capital market development



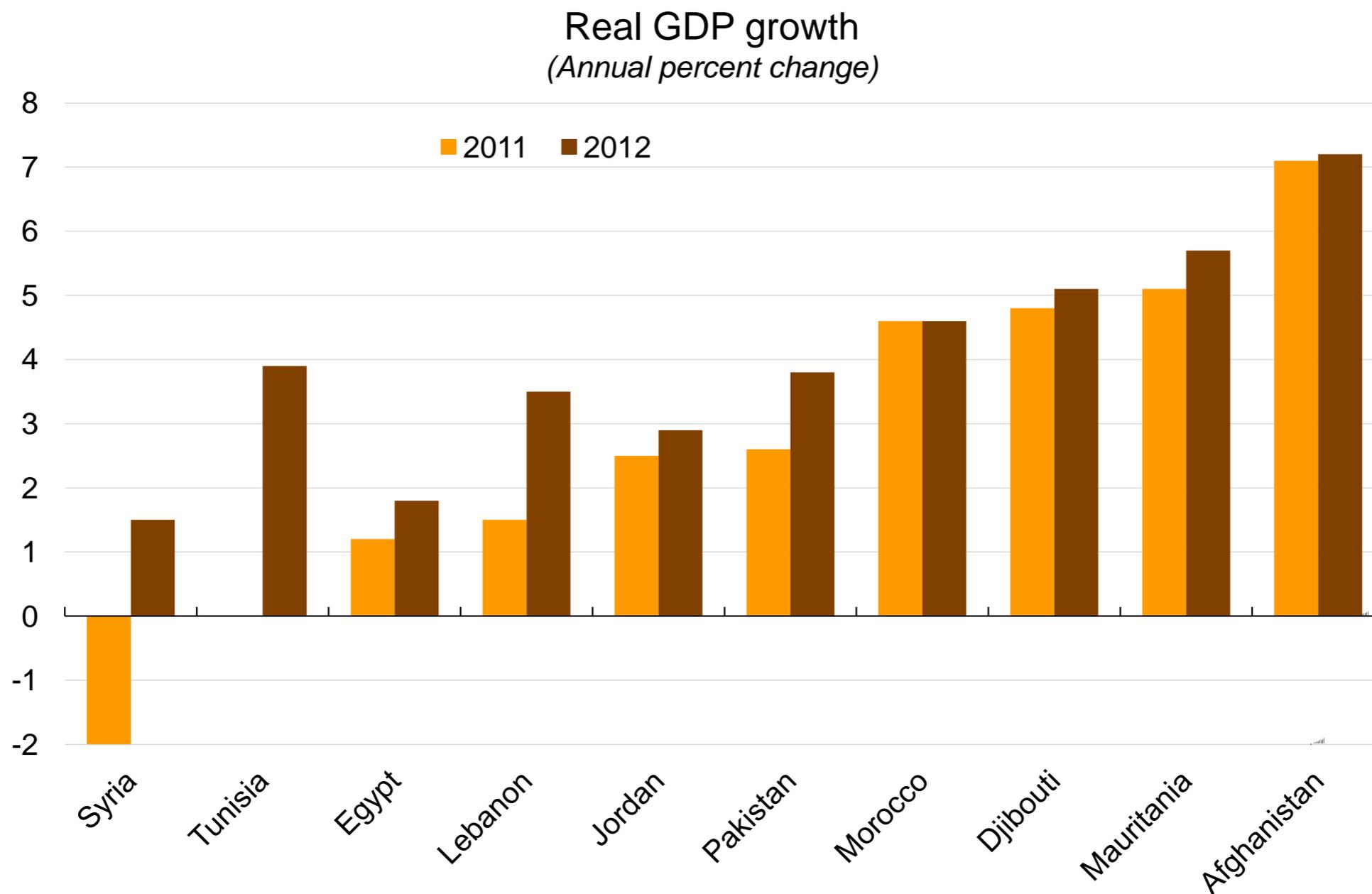
MENAP oil importers



Challenges ahead



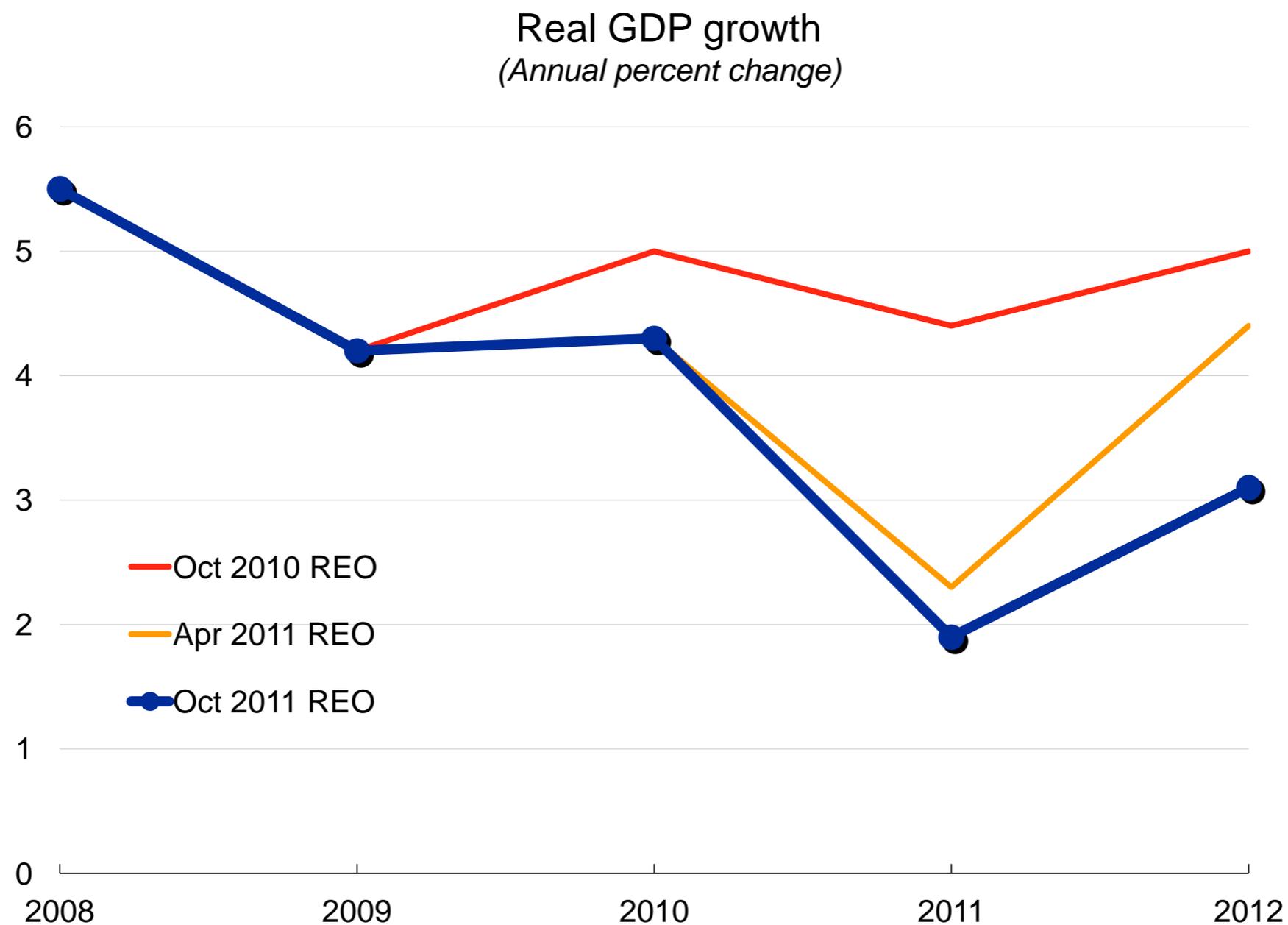
Uncertainty weighing on activity



Sources: National authorities; and IMF staff calculations.



Growth forecasts have been revised downward

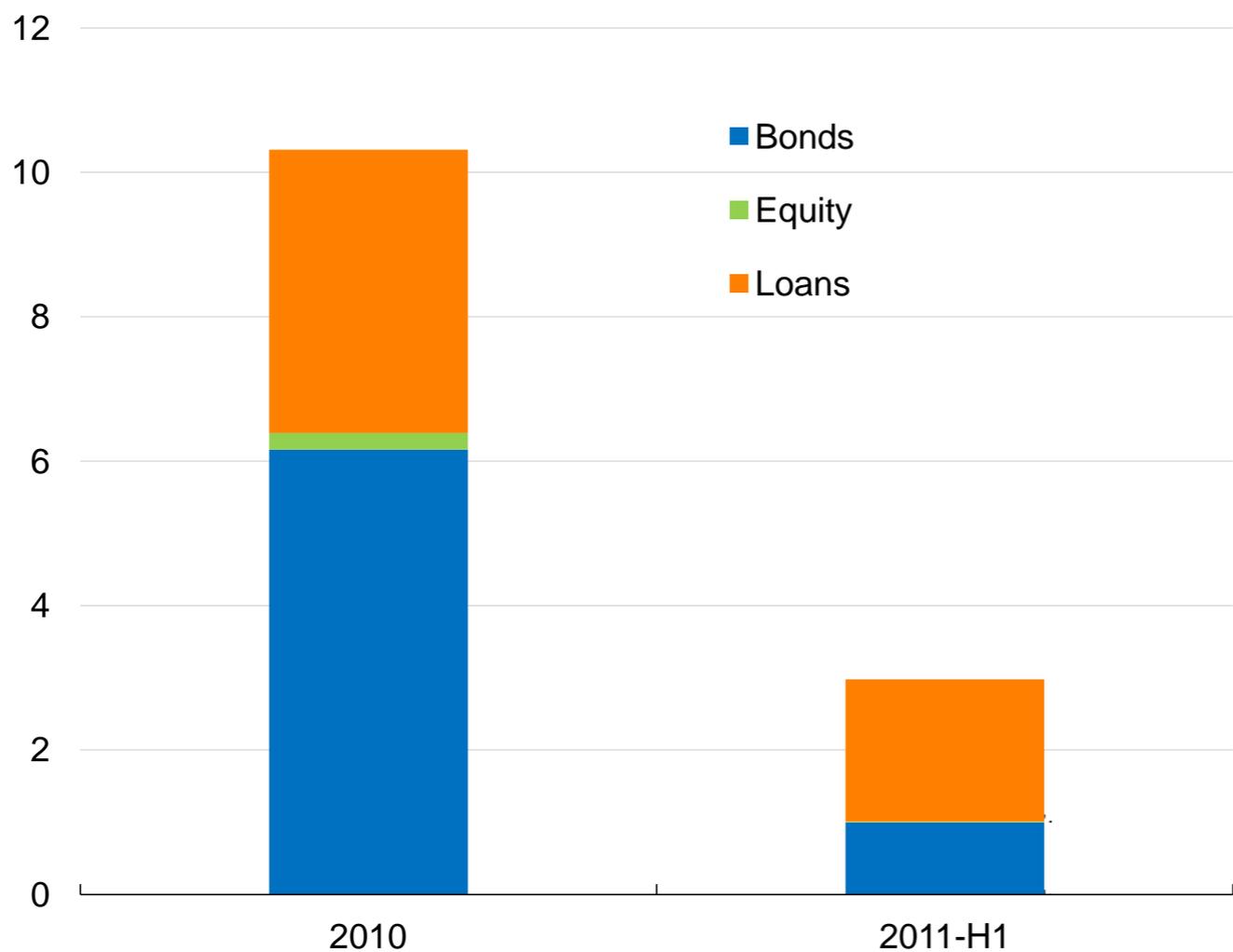


Sources: National authorities; and IMF staff calculations.



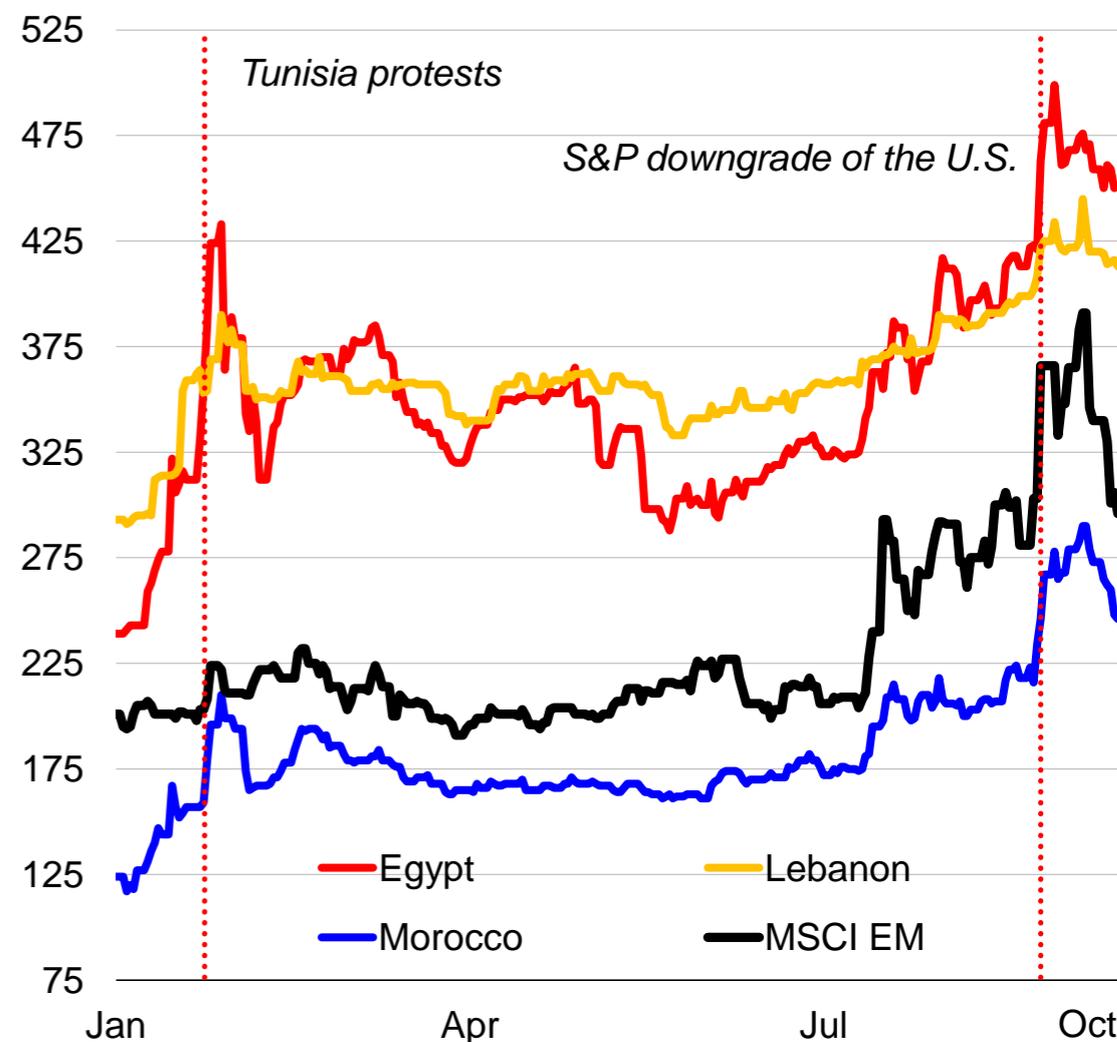
External financing constrained, more costly

International issuance of bonds, equity, and loans
(Billions of U.S. dollars)



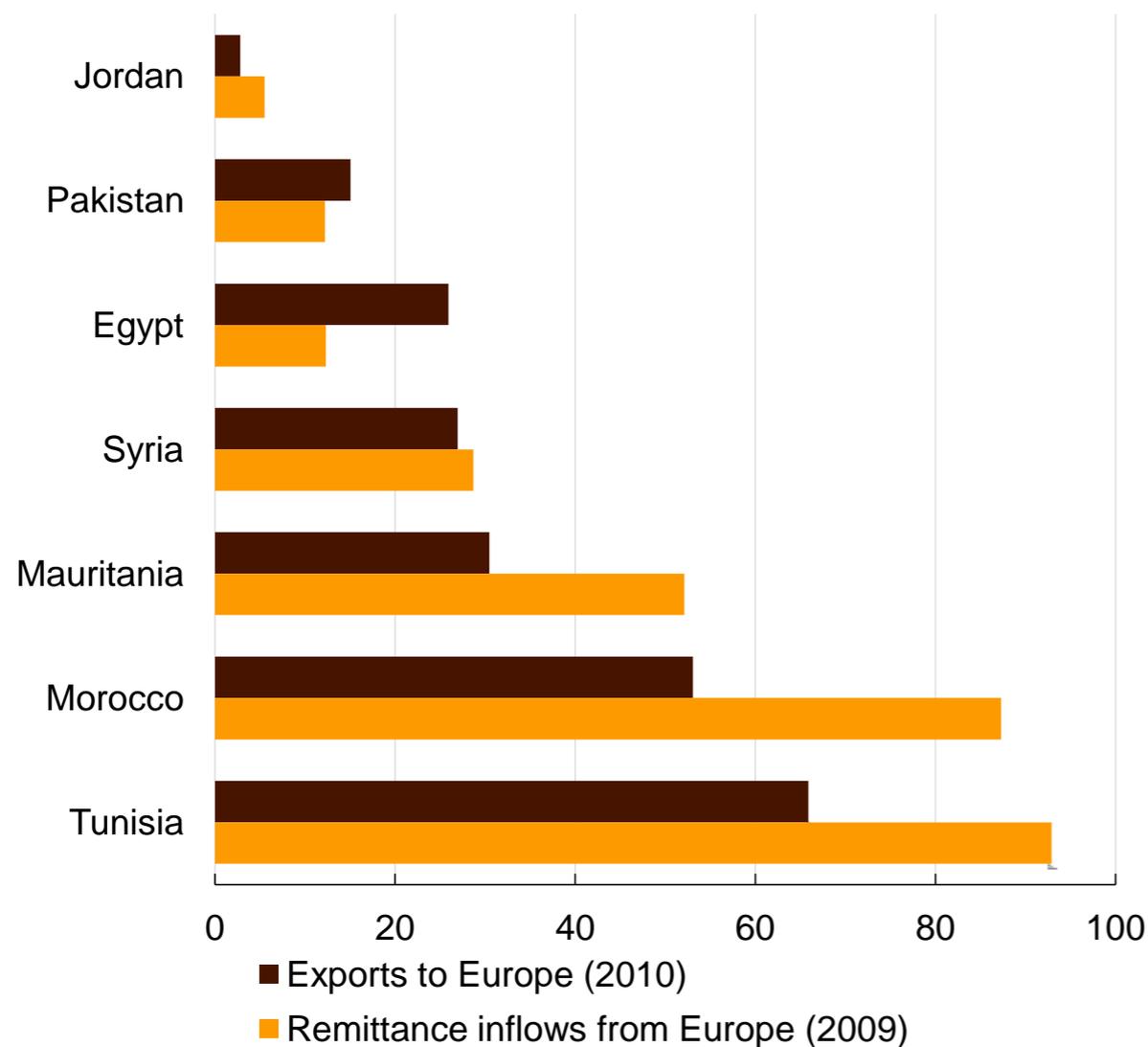
Sources: Bloomberg; Dealogic; and Markit.

Credit default swap spreads
(Basis points, Jan 1 - Oct 14, 2011)

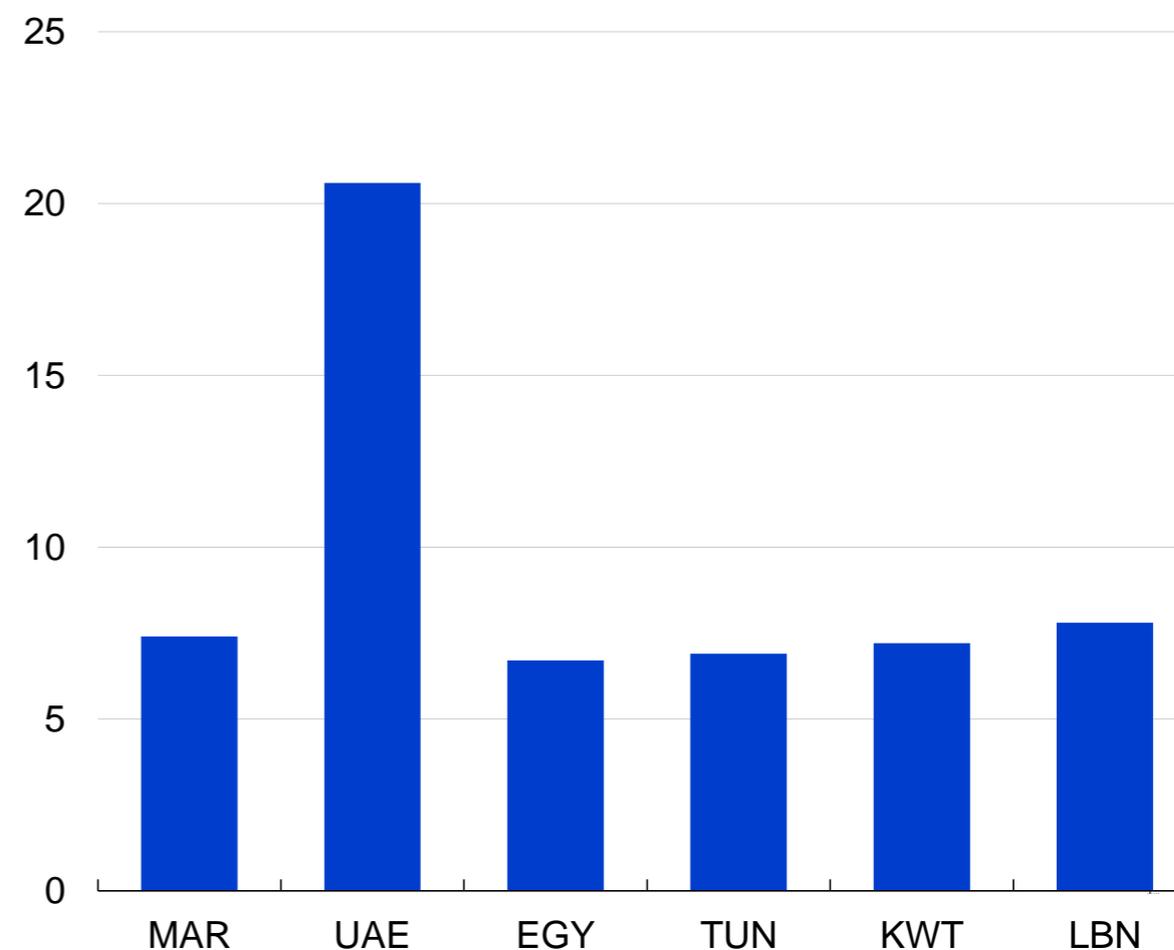


MENA links with Europe: downside risks

Trade and remittances linkages with Europe
(Percent of total)



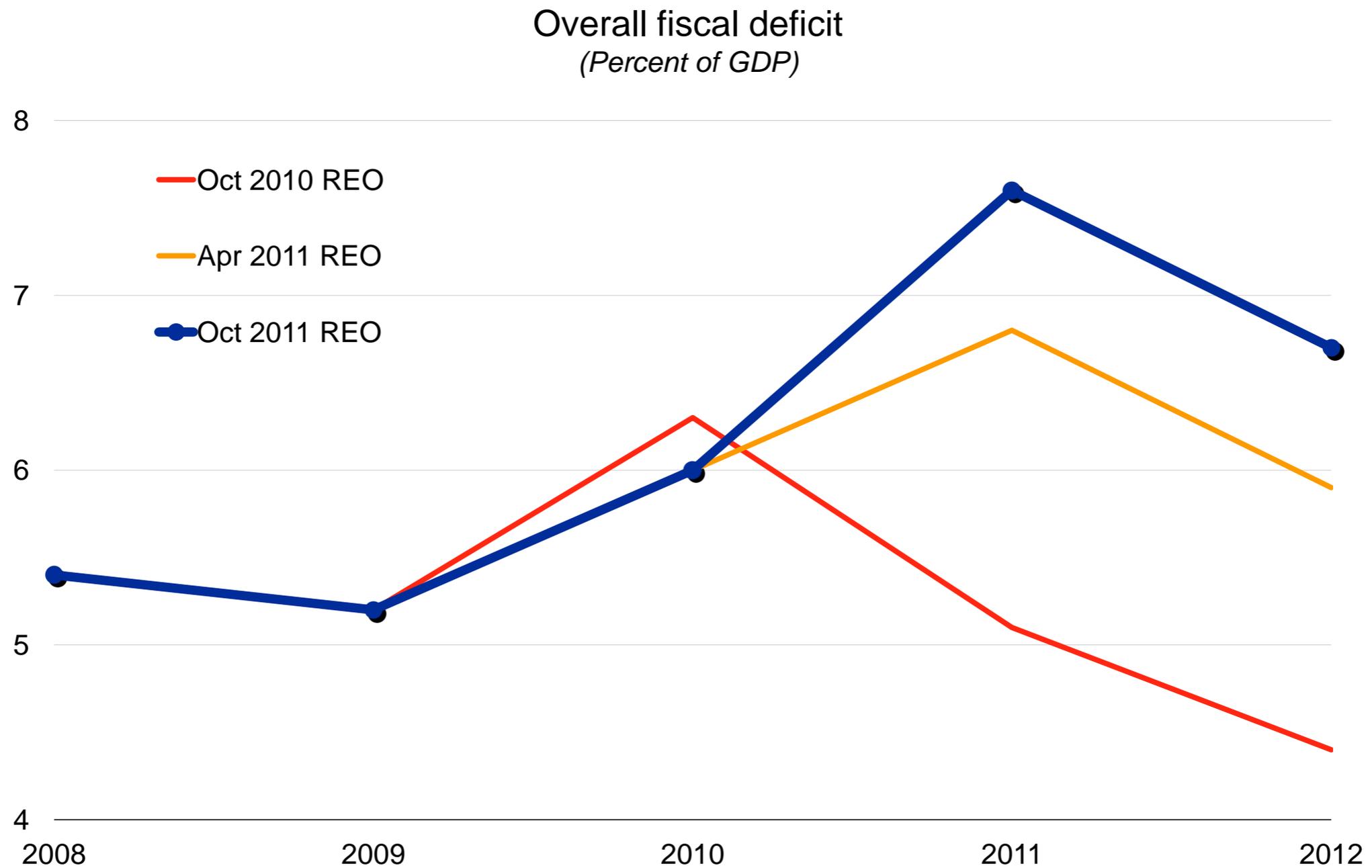
Cross-border lending by European banks
(Percent of GDP, March 2011)



Sources: Bank for International Settlements; Bloomberg; and Markit.



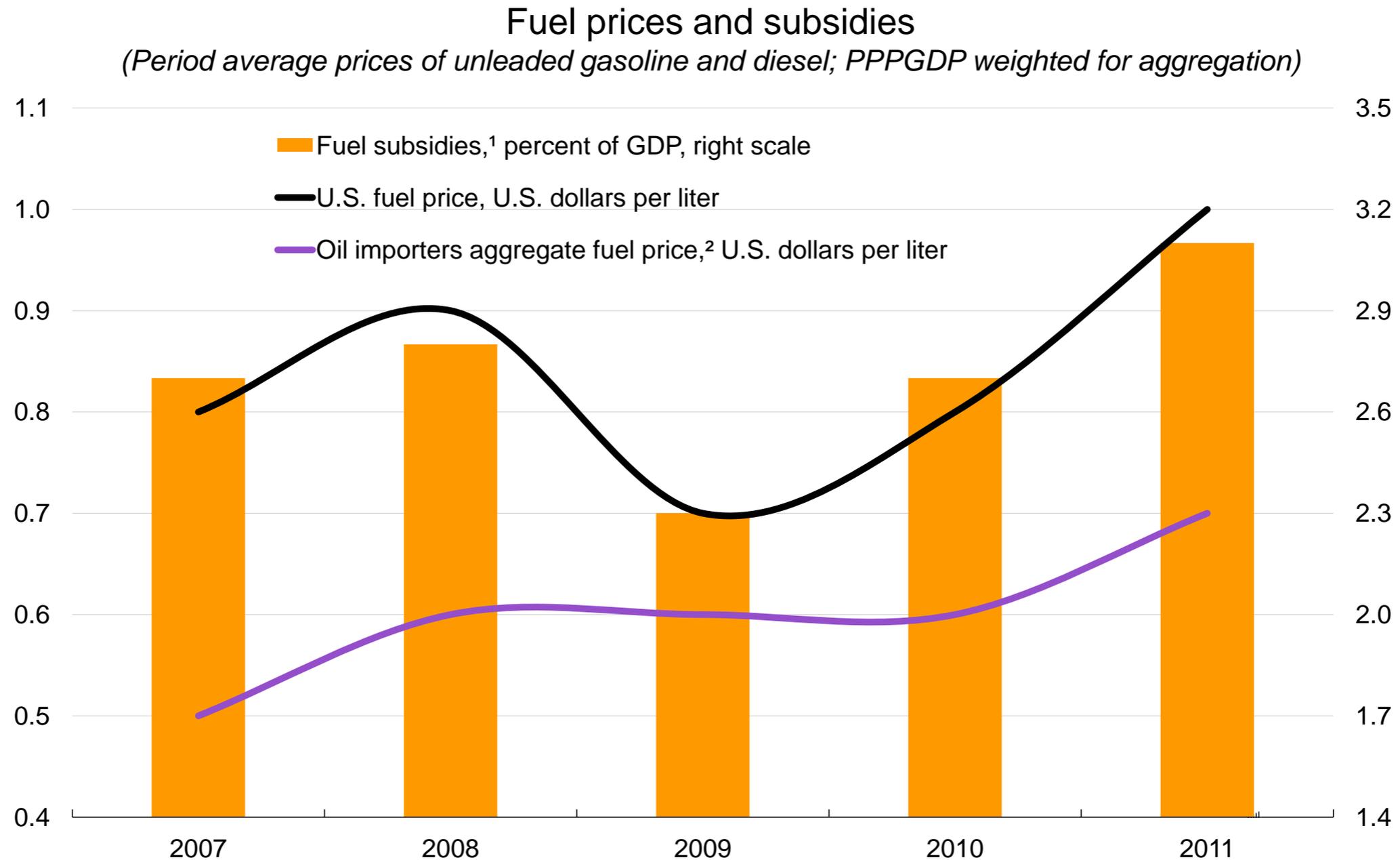
The 2012 fiscal outlook has worsened



Sources: National authorities; and IMF staff calculations.



Fuel price pass-through decreased, subsidies increased...



Sources: National authorities; and IMF staff calculations.

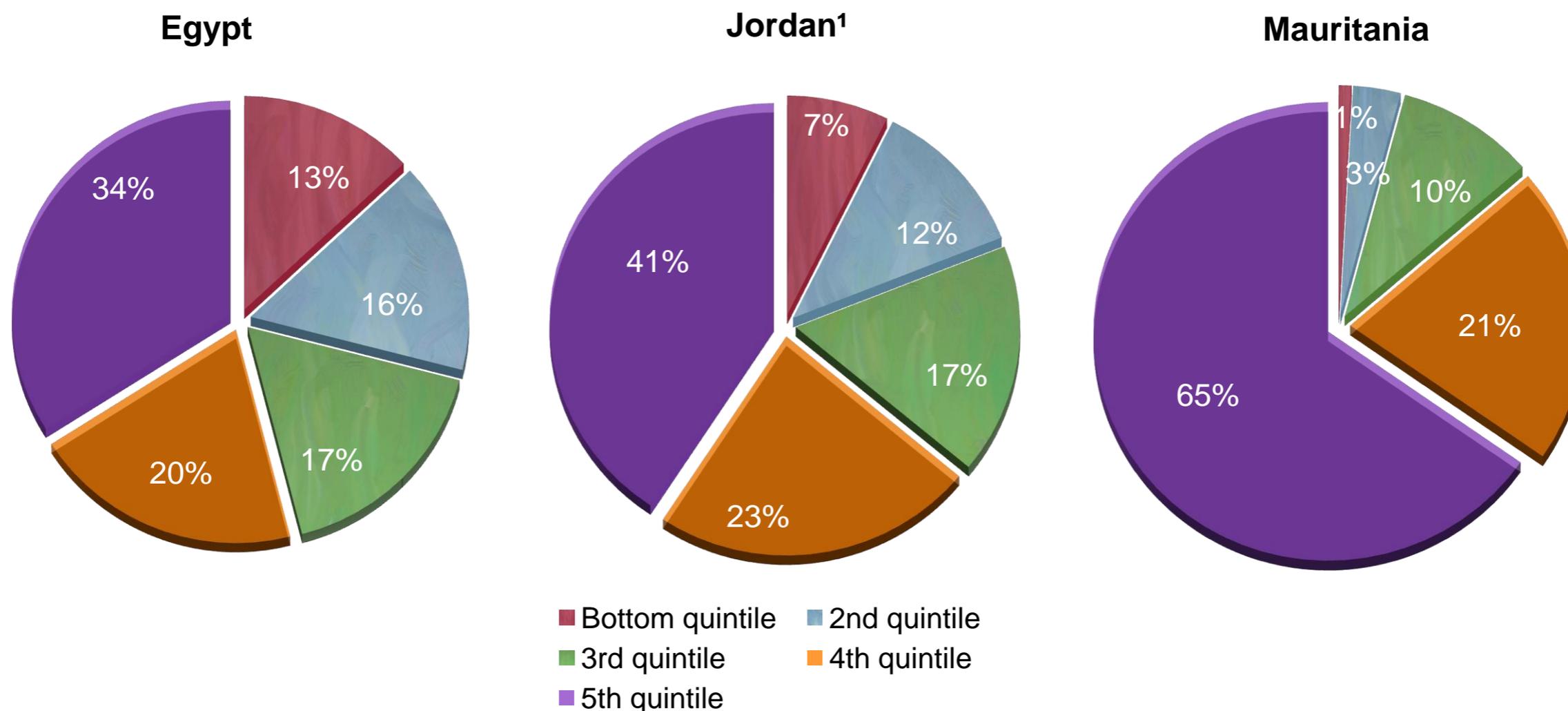
¹Includes Egypt, Jordan, Lebanon, Mauritania, Morocco, and Tunisia.

²Includes Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, and Syria.



... and mostly benefit the wealthy

Share of benefits from energy subsidies
(Percent of total)

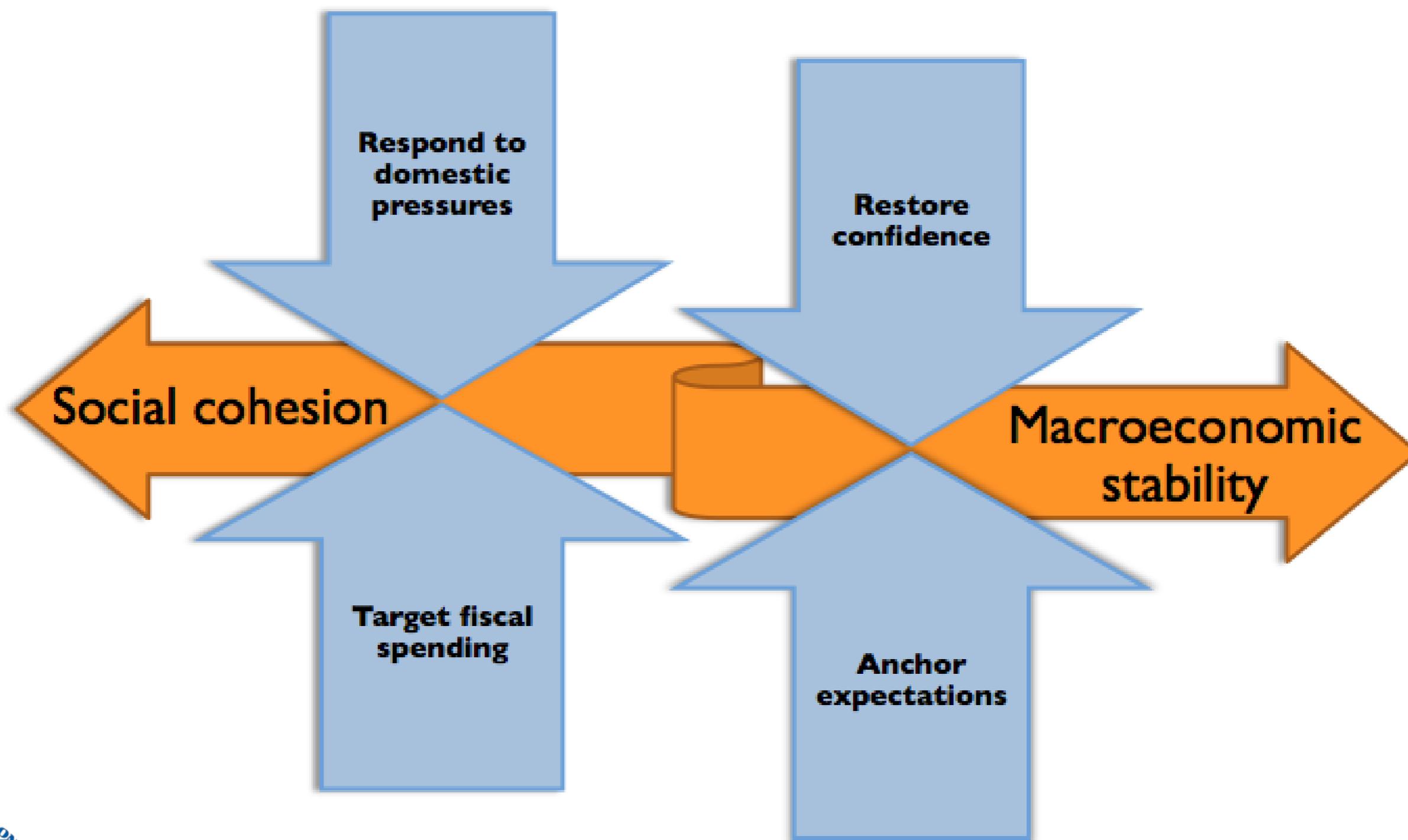


Sources: National authorities; IMF staff calculations based on information in the 2008 household survey for Jordan and Mauritania, and World Bank PSIA (2005) for Egypt.

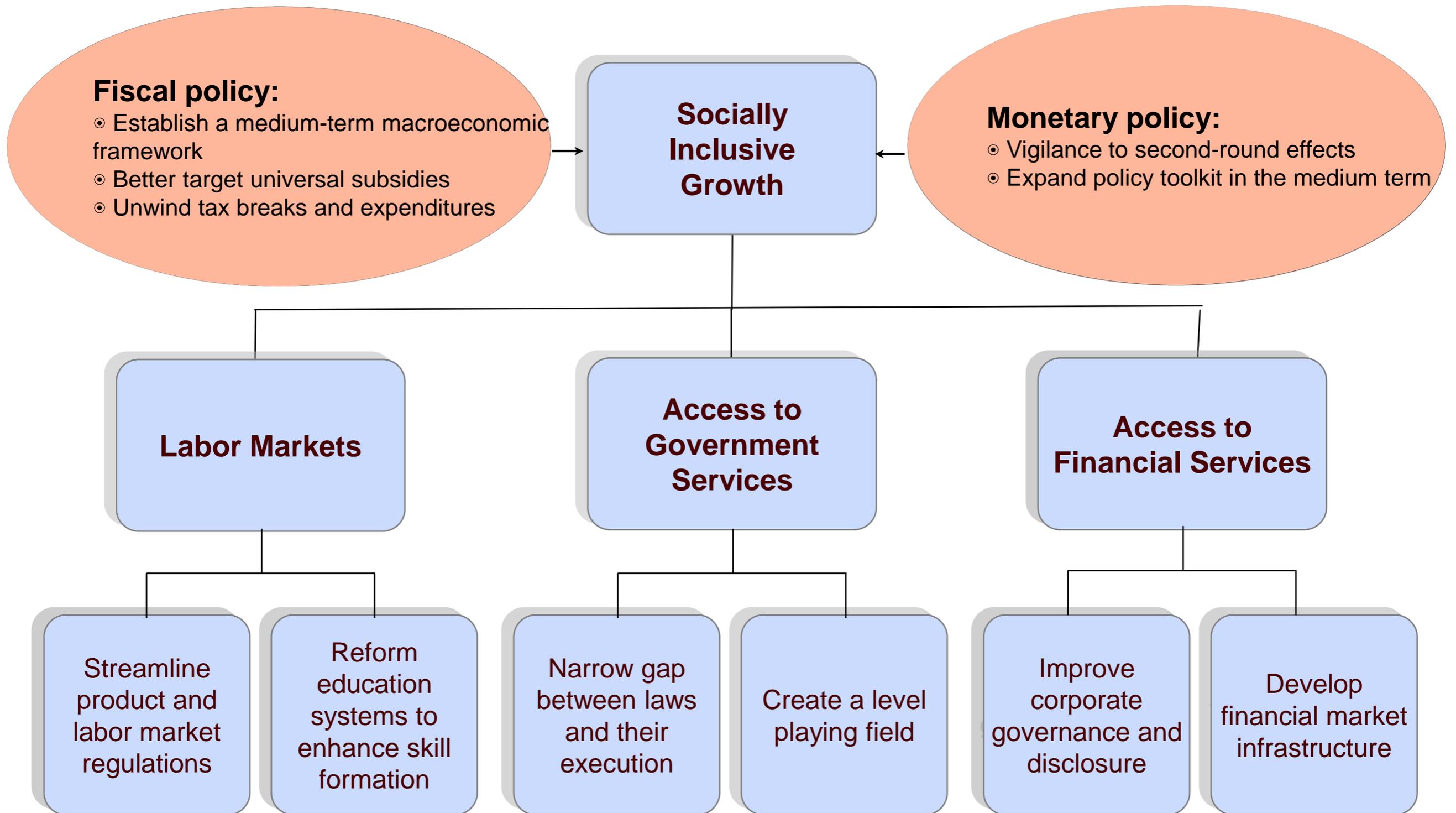
¹For Jordan, the distribution of gains accounts for both the direct and indirect effect of price subsidies. The latter refers to the impact of energy price subsidies on the price of other consumed goods and services that use energy in their production and distribution.



Short-term policy challenges



Opportunity to develop a medium-term policy agenda for shared prosperity





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