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The analysis in this report was coordinated under the general supervision of Masood Ahmed (Director of MCD). The project was directed by Alfred Kammer (Deputy Director of MCD), Natalia Tamirisa (Chief of MCD's Regional Studies Division), and Harald Finger (Deputy Chief of MCD's Regional Studies Division). The primary contributors to this report are Alberto Behar, Sami Ben Naceur, Amr Hosny, and Pritha Mitra.

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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 oil[1] 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 importers[1] (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 Outlook[1]

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)

		Projections	
	2013	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).

[1]Simple 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.

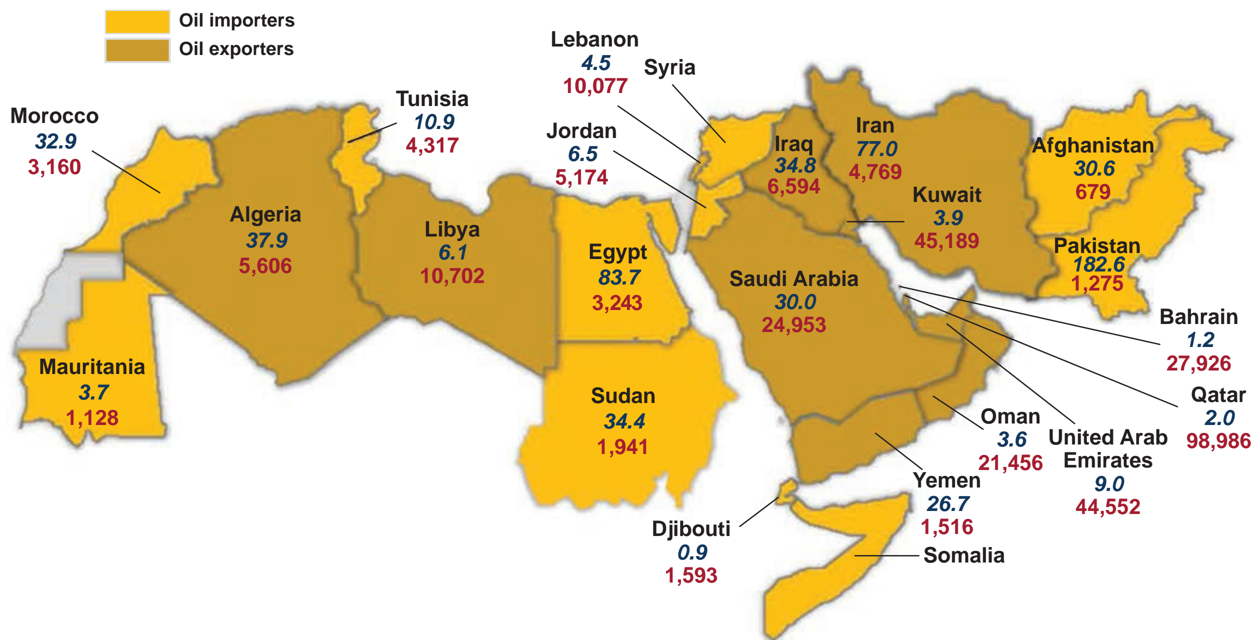
[2] Average (measured in U.S. dollars) based on world commodity export weights.

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



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
MENAP[1]								
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
MENA[1]								
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، ٢٠٠٠–٢٠١٧

(% من إجمالي الناتج المحلي، ما لم يذكر خلاف ذلك)

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

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 وعُمان 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 السلبي 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 معزِّزا 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 الجرأة 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 للنفاذ 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 تصاعُد 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 تطوِّع نموذجها الاقتصادي المعتمد للنمو بما يحقق نموا أكثر استمرارية وتنوعا واحتواءً لشرائح المجتمع. وقد ارتكز النموذج الاقتصادي حتى الآن على نمو الإنفاق الحكومي الذي تدعمه الزيادات في أسعار النفط. ويتعين إجراء إصلاح كبير للتحول إلى نموذج أكثر تنوعا 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 نموا منخفضا 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 تغير 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 التحول 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 سيتيح التدرج في إعادة بناء هوامشها الوقائية وتعزيز صلابتها في مواجهة الصدمات. وفي كثير من البلدان، تتحقق وفورات بفضل الإصلاحات التدريجية للدعم المعمم غير الكفء (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 وتتمتع 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 أُبرِمَت 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'écarts 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
MOANAP[1]								
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
MOAN[1]								
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.

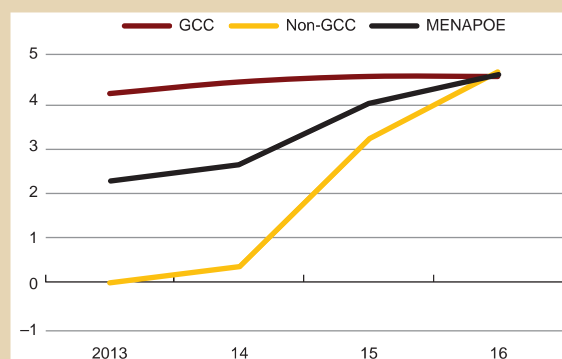
1. MENAP Oil Exporters: Increasing Diversification, Reducing Reliance on Oil-Funded Spending

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.

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



Sources: National authorities; and IMF staff calculations.

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

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

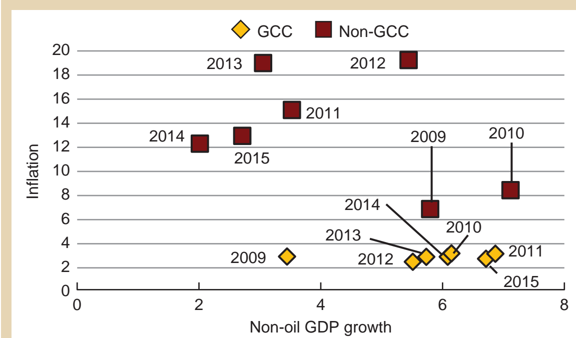
- By contrast, deteriorating security conditions in some non-GCC countries have led to a 2¼ percentage point downward revision in the non-GCC growth forecast for 2014 to ¼ percent, despite a return to positive growth in Iran. Militants' occupation of important cities in northern Iraq is expected to reduce 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).

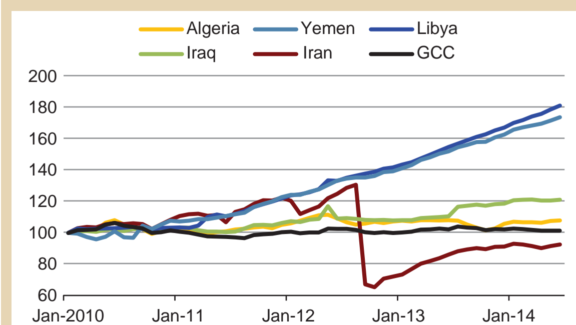
- In many non-GCC countries, higher inflation has been driven by shortages induced by supply shocks caused by conflict, trade disruptions, or adverse weather. Real exchange rate appreciation has been the result in many countries. As Iran begins to recover from stagflation, a fall in its inflation rate will bring down the non-GCC inflation aggregate to about 12 percent in 2014. However, ceilings on deposit interest rates and subsidy reform in 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.

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.

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

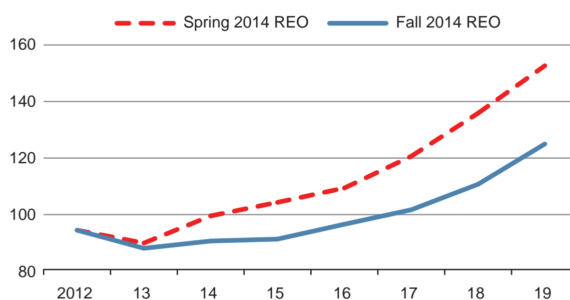
Economic Implications of the Iraq Conflict

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 Blagrave, 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

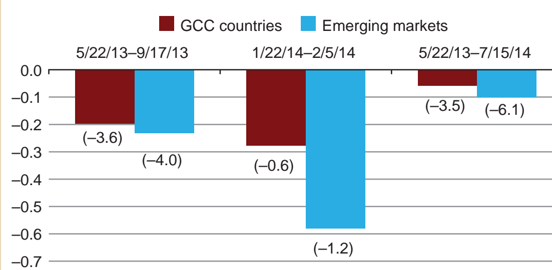
GCC countries are among the largest recipients of private portfolio flows in the MENAP region. In recent episodes of rising global risk aversion, the GCC countries' strong external positions have led investors to view them more favorably than the broader emerging market asset class.

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]

Figure 1.2.1

Net Portfolio Flows[1]

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



Sources: EPFR Global; and IMF staff calculations.
[1]Portfolio flows are represented by EPFR equity and bond fund flows.

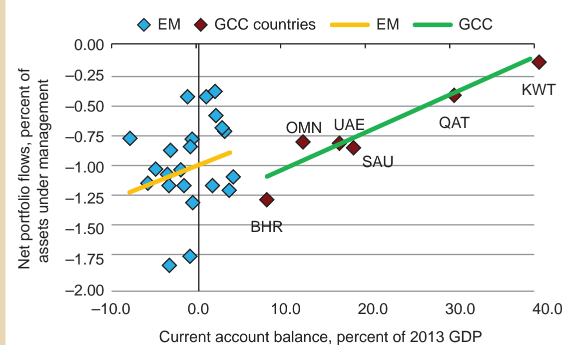
In the period following the tapering announcement, from May to September 2013, weekly bond and equity outflows from GCC countries were broadly in line with weekly outflows from other emerging markets. Pressures eased in September 2013, when the U.S. Federal Reserve surprised markets by delaying tapering, 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 1.2.2

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



Sources: EPFR Global; and IMF staff calculations.
Notes: EM = emerging markets.
[1]Portfolio 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.

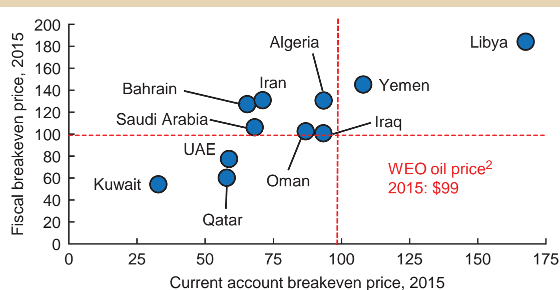
[2] This period covers the most volatile weeks in the early 2014 sell-off, as measured by market-based indicators such as volatility and emerging market bond and equity indexes.

[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.
[1]2013 breakeven prices for Yemen.
[2]Simple 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. 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

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

[2] On 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]).

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:

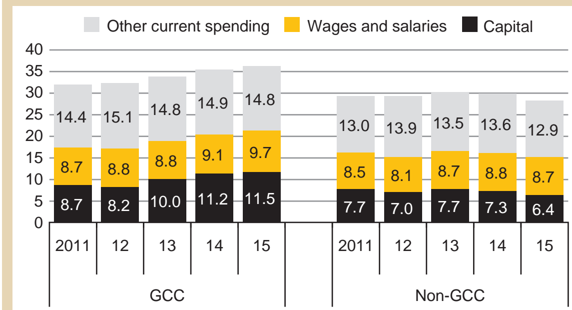
- Oil revenues have stopped rising, but government spending has not. Although oil supply disruptions have allowed oil prices to stay higher than expected, they have hovered at about US$105 a barrel since 2011, and financial markets continue to predict they will decline over the medium term. In addition, 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)

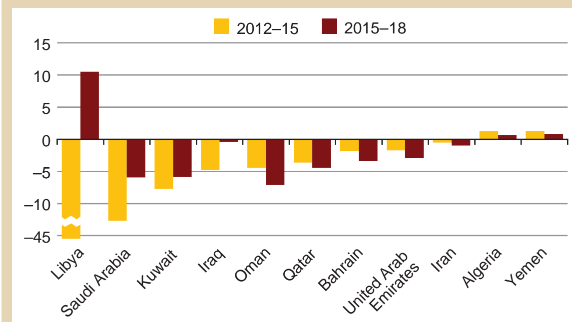


Sources: National authorities; and IMF staff calculations.

Figure 1.6

Fiscal Positions Are Weakening

(Change in fiscal balance,[1] percent of GDP)

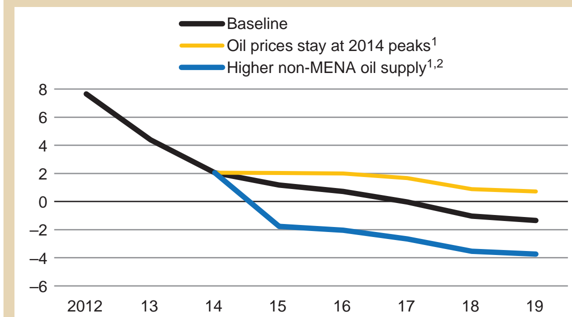


Sources: National authorities; and IMF staff calculations.
[1]Central government fiscal balance for Saudi Arabia and Oman.

Figure 1.7

High Oil Prices Will Not Save Fiscal Positions

(MENAP oil exporters: fiscal balance, percent of GDP)

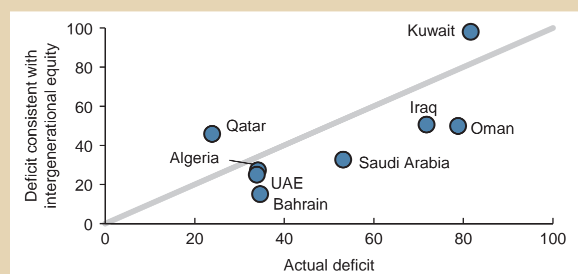


Sources: National authorities; and IMF staff calculations.
[1]Assuming no policy response.
[2]Unanticipated increase of 1 mbd, starting 2015.

Figure 1.8

Nonhydrocarbon Deficits Are Too High for Intergenerational Equity in Most Countries

(Nonhydrocarbon primary deficit, percent of nonhydrocarbon GDP, 2013)

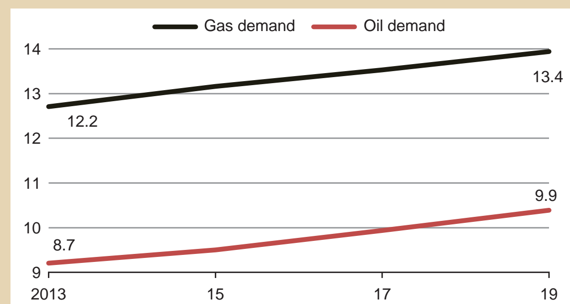


Sources: National authorities; and IMF staff calculations.

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.

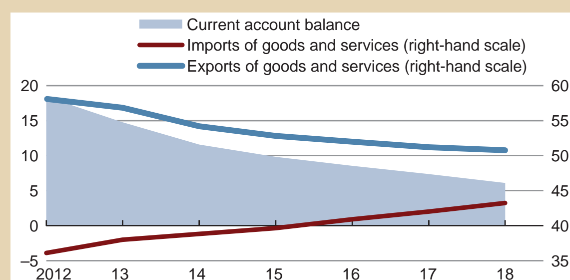
- Although the deterioration in fiscal positions is common among most oil exporters, fiscal positions are generally stronger in the GCC countries. Qatar and Kuwait currently have substantial buffers and long-lasting hydrocarbon resources. So do the United Arab Emirates and Saudi Arabia, but these countries 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).

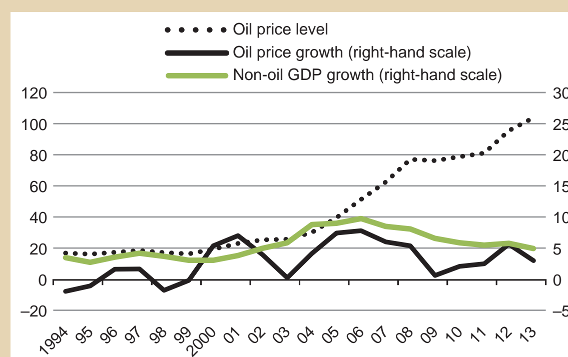
On current policies and in the absence of rapid and sustained oil price rises, medium-term non-oil GDP growth can only be supported at the cost of unsustainable fiscal policies. Non-oil growth is in most cases concentrated in service sectors that rely on demand generated by oil revenues; moreover, in 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)

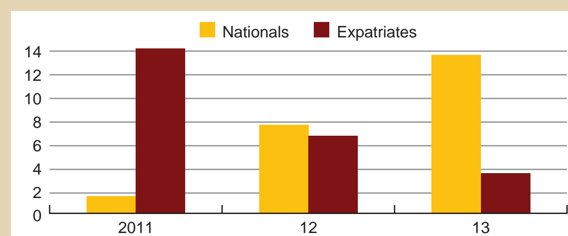


Sources: National authorities; and IMF staff calculations.

Figure 1.12

Signs That Labor Market Reforms Are Bearing Fruit?

(GCC[1] private sector employment, percent change)



Sources: National authorities; and IMF staff calculations.
[1]Bahrain, Kuwait (data to June 2013), Oman, and Saudi Arabia (data to June 2013).

Moreover, labor market reforms in Saudi Arabia[4] 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

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[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.

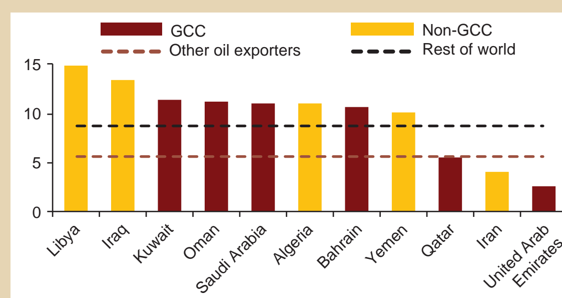
- ***Gradually reducing energy subsidies*** would help prevent diversion of investment to sectors that are energy-intensive but not job-intensive.

- ***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	Projections 2015
Real GDP Growth	**5.5**	**5.3**	**5.7**	**2.2**	**2.5**	**3.9**
(Annual change; percent)						
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**
(Year average; percent)						
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**
(Percent of GDP)						
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**
(Percent of GDP)						
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.*

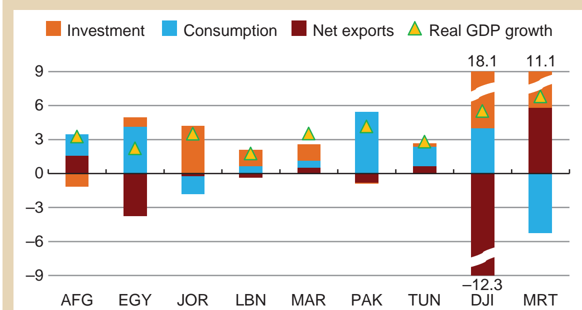
Fragile Confidence Constrains Recovery

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.

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,

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

Box 2.1

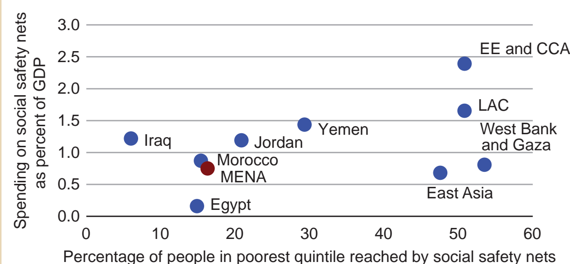
Better Protection for the Poor in MENA

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.

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.

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 Hagemejer 2009; Gentilini, Honorati, and Yemtsov 2014; Grosh and others 2008).

Prepared by Gaëlle Pierre and Carlo Sdralevich.

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

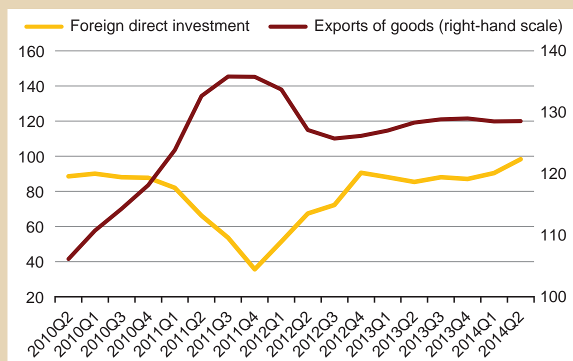
Initial conditions →	*A few fragmented programs or no programs (e.g., Egypt, Mauritania)*	*Developed but underperforming targeted social safety nets (e.g., Jordan, Tunisia)*	*Promising flagship programs or pilots (e.g., Morocco, West Bank and Gaza, Yemen)*	*Well-developed social safety net system (e.g., Armenia, Georgia)*
Priority ↓	• 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	• 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)	• 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	• 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.

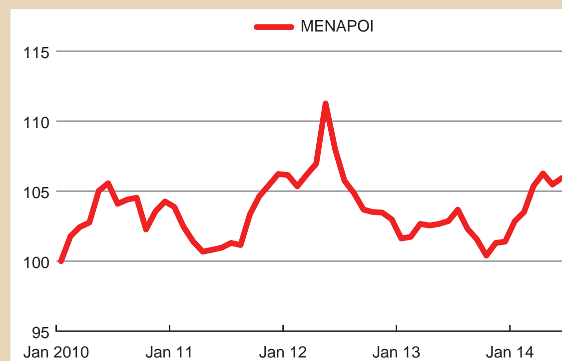
The gradual global recovery, coupled with initial progress in structural reforms, supports a modest pick-up in external activity. Slowly reviving internal demand in Europe and solid GCC activity—the region's two major trading partners—are sustaining a measured but steady recovery of exports and foreign 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

Figure 2.2
Exports of Goods and Foreign Direct Investment
(Index; 2009 = 100, four-quarter moving average)



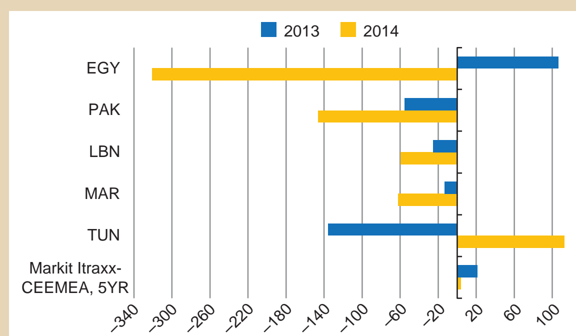
Sources: Haver Analytics; and national authorities.

Figure 2.4
Real Exchange Rate in MENAP Oil Importers
(Percent; increase = appreciation)



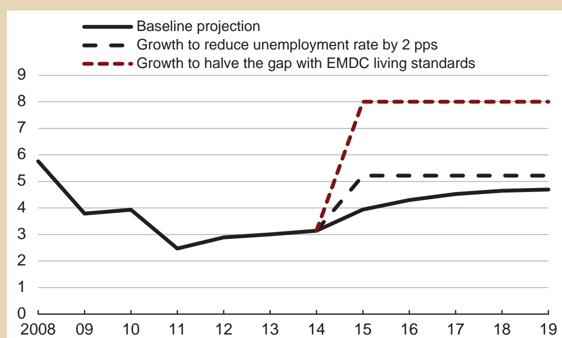
Sources: National authorities; and IMF staff calculations.

Figure 2.3
Risk Premiums Are Declining
(CDS spreads, basis points, change since January 1, 2013, and January 1, 2014)



Sources: Bloomberg, L.P.; Markit; and IMF staff calculations.

Figure 2.5
Growth Insufficient to Improve Living Standards
(Real GDP, annual percentage change)



Sources: IMF, World Economic Outlook database; International Labour Organization; national authorities; and IMF staff calculations.

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

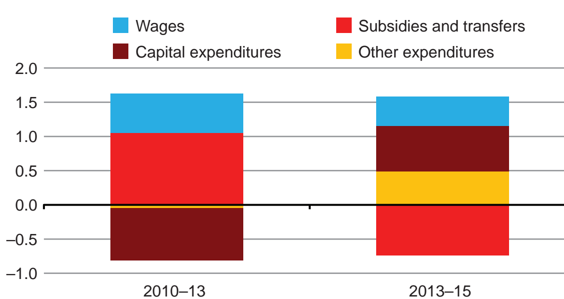
Four years after the Arab Spring, MENAP oil-importing economies are struggling to create jobs amid weak economic recovery while consolidating their fiscal positions to put debt on a sustainable path. In the near term, consolidation reduces domestic demand and thus negatively affects output and jobs. 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.

Figure 2.2.1

Change in Revenue and Expenditure[1]

(Percent of GDP)



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

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).

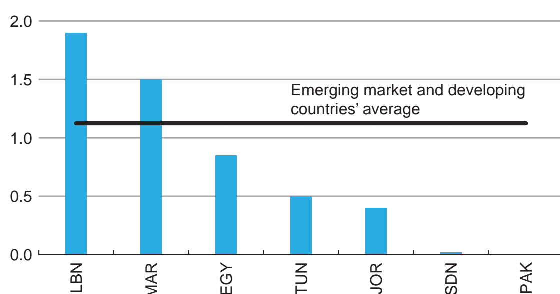
[3] In general, fiscal adjustment based on revenue mobilization efforts may be preferable to spending cuts in emerging and developing economies (October 2014 *Fiscal Monitor*)—especially when spending rigidities and low levels of public outlays imply that cuts fall disproportionally on capital and other 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.

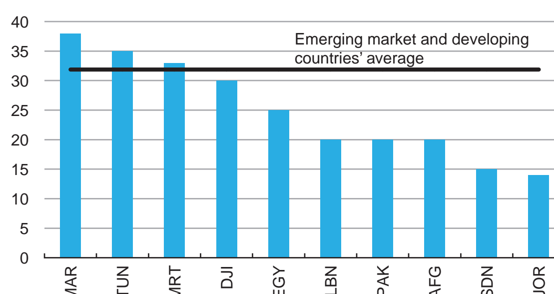
Box 2.2 (*concluded*)

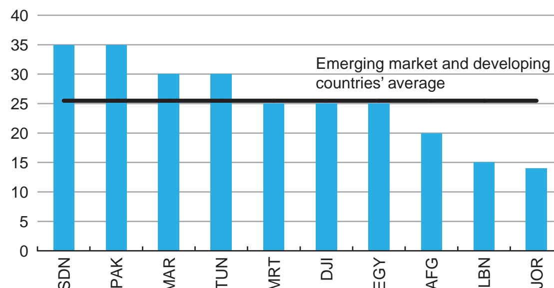
Fiscal savings can also be used to support labor market reforms, which aim to improve job placement services and reduce skills mismatches (Annex I). For example, in the MENAP oil importers, some savings from energy subsidy reforms can finance job placement services, including centralized computer matching 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





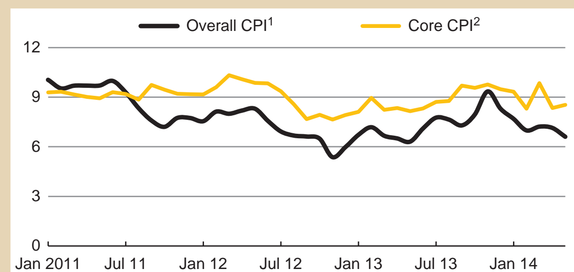


Sources: National authorities; KPMG; Deloitte; and IMF staff calculations.

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.

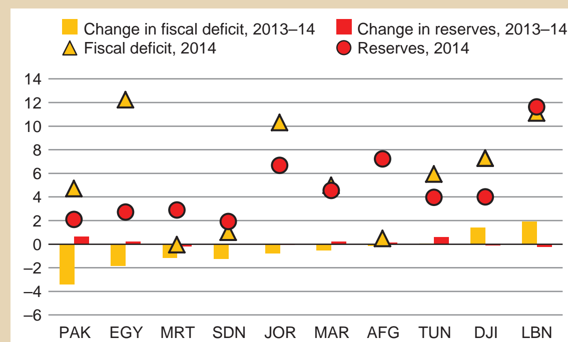
Inflation has stabilized, though at elevated levels. Over the past three years, declining global food and energy prices, weak economic activity, growth below potential, and, in some cases, monetary tightening, have reduced inflation pressures (Figure 2.6). Nevertheless, reduced energy subsidies, higher 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.
[1]Excluding Djibouti, Mauritania, and Sudan.
[2]Excluding Djibouti, Lebanon, Mauritania, Morocco, and Sudan.

Figure 2.7
Fiscal Deficit and Reserves
(Percent of GDP and months of imports, respectively)



Sources: National authorities; and IMF staff calculations.

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 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.

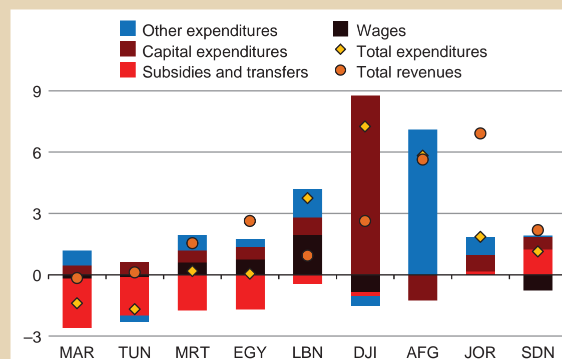
growth, varies across countries. In Djibouti and Mauritania, the current account deficit is widening owing to large investment-related imports mostly financed by FDI. Sudan's external balances remain sensitive to South Sudanese oil transit fees and gold exports. Net capital flows and grants, which also 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 meantime, improved economic activity is expected to lift tax revenues.

[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.

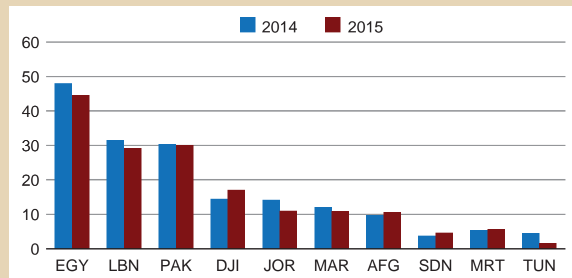
Table 2.1. Spending on Energy Subsidies
(Percent of GDP)

	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.

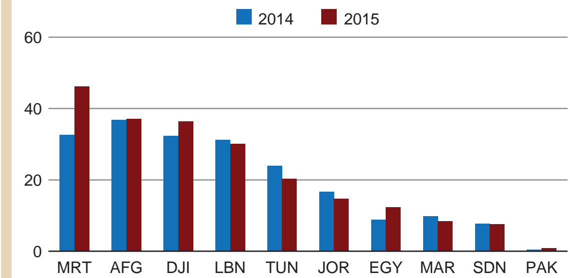
Financing needs loom large. Gross budgetary financing needs in the oil importers are large (Figure 2.9); they are particularly so in Egypt, Lebanon, and Pakistan, because of high deficits and short maturities of domestic Treasury bills. Domestic and official financing are expected to cover the bulk of 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 Needs[1]
(Percent of GDP)



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

Figure 2.10
External Financing Needs
(Percent of GDP)



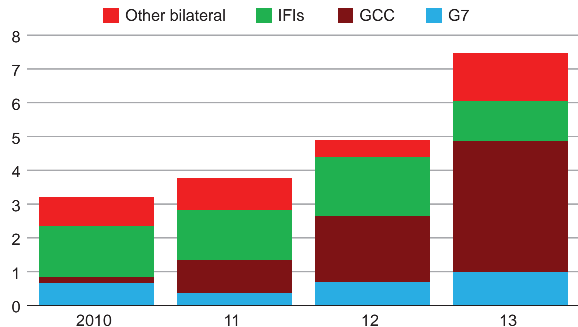
Sources: National authorities; and IMF staff calculations.
Note: Current account deficit (excluding official current transfers) plus total external amortization (excluding nonresident deposits).

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).

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.

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.

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.

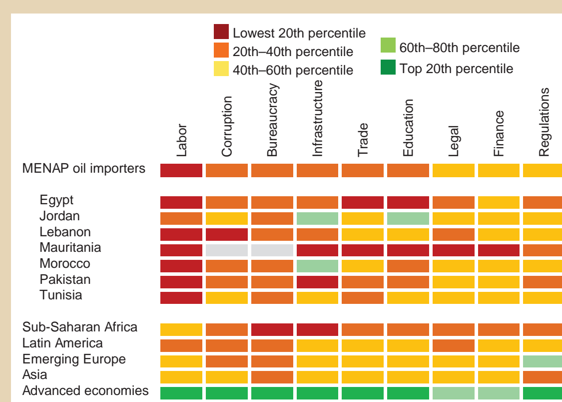
Lackluster Medium-Term Prospects

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

Figure 2.11

Raising Medium-Term Growth and Job Prospects Requires Structural Reforms[1]



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

[1]A 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).

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 2000–10	2009	2010	2011	2012	2013	Projections 2014	2015
Real GDP Growth	**5.0**	**3.8**	**3.9**	**2.5**	**2.9**	**3.0**	**3.1**	**3.9**
(Annual change; percent)								
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**
(Year average; percent)								
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**
(Percent of GDP)								
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**
(Percent of GDP)								
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.

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

[2] 2011–15 data exclude Syria due to the uncertain political situation.

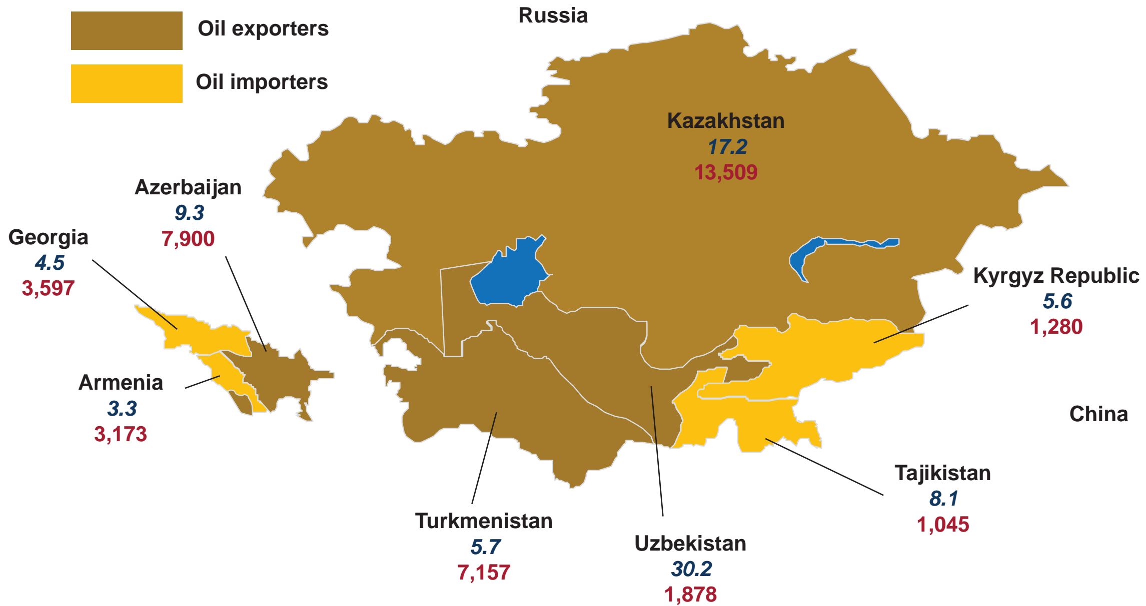
[3] West Bank and Gaza is not a member of the IMF and is not included in any of the aggregates.

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

[5] Includes oil revenue transferred to the oil fund.

[6] Includes bank recapitalization costs and arrears payments.

Caucasus and Central Asia



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.

CCA Region Highlights

Economic activity in the Caucasus and Central Asia (CCA) region is weakening, mainly because of the near-term slowdown and rising regional tensions affecting Russia, a key trading partner and source of remittance and investment inflows, as well as weaker domestic demand in a number of CCA countries. Near-term risks are to the downside and tied to the fortunes of large trading partners. Policies need to focus on bolstering economic stability and, where needed, short-term support to ailing economic growth. In addition, a new model for high, sustained, diversified, and inclusive growth is needed to set the direction for economic policies for the next decade.

Headwinds from Russia

Weakening domestic demand and spillovers from the slowdown in Russia are dampening economic growth in the CCA to about 5½ percent in 2014–15, ¾ of a percentage point lower than projected in the May 2014 *Regional Economic Outlook* Update. Despite weaker growth and declining food prices, inflation is set to rise to about 6½ percent in 2014–15, reflecting the pass-through from recent exchange rate depreciation, particularly in Kazakhstan.

Risks are to the downside. A further deepening of geopolitical tensions between Russia and Ukraine could have a significant impact on the CCA region, over both the near and medium term. A protracted period of slower growth in other trading partners, particularly Europe or China, would also affect external demand. Domestic risks stem from delays or reversals in growth-enhancing structural reforms, especially in the areas of governance and competition.

Reforms Need to Support Stability and Growth

Fiscal balances across the region are deteriorating. Shrinking budget surpluses and rising breakeven oil prices expose the CCA oil exporters to greater fiscal risks and call for gradually strengthening fiscal positions by containing expenditure growth and improving tax collection. A pause in fiscal consolidation is justifiable in countries with less favorable near-term growth prospects, particularly among the region's oil importers, though fiscal consolidation needs to resume, once cyclical conditions allow to rebuild buffers against future shocks.

Renewed inflation pressures call for cautionary monetary policy. Monetary tightening may be needed if inflation pressures persist, particularly in Kazakhstan. Many countries need to strengthen monetary policy frameworks by moving away from targeting the exchange rate and creating new and credible anchors. To enhance the effectiveness of monetary policy, countries need to strengthen the transmission mechanism by improving banks' loan quality and discouraging dollarization and directed lending.

CCA countries need to improve their growth model. While growth has been strong over the past two decades, it has remained volatile and dependent on commodities, and poverty and unemployment continue to be major concerns. Moreover, medium-term growth prospects have been weakening faster than in other regions of the world. Comprehensive reforms of governance, regulatory quality, and the rule of law are needed to create an environment conducive to sustained and equitable increases in productivity, jobs, and growth. Important priorities include further diversification of commodity-based economies, improving access to finance, strengthening the business climate, and pursuing balanced regional and multilateral trade integration.

CCA Region: Selected Economic Indicators, 2000–17

(Percent of GDP, unless otherwise indicated)

	Average 2000–10	2011	2012	2013	Projections 2014	2015	2016	2017
CCA								
Real GDP (annual growth)	9.1	6.7	5.6	6.6	5.5	5.6	5.3	5.5
Current Account Balance	0.8	7.3	3.2	1.9	1.6	0.7	0.7	1.0
Overall Fiscal Balance	2.2	6.7	4.7	2.8	1.6	1.0	1.2	1.0
Inflation, p.a. (annual growth)	9.8	9.0	5.3	6.0	6.4	6.4	6.4	6.4
CCA Oil Exporters								
Real GDP (annual growth)	9.5	6.7	5.6	6.8	5.6	5.7	5.4	5.5
Current Account Balance	2.1	9.3	4.7	2.8	2.7	1.6	1.4	1.7
Overall Fiscal Balance	2.9	7.9	5.5	3.4	2.1	1.4	1.6	1.3
Inflation, p.a. (annual growth)	10.0	8.8	5.7	6.3	6.5	6.5	6.5	6.5
CCA Oil Importers								
Real GDP (annual growth)	6.6	6.4	5.4	5.6	4.6	4.9	4.9	5.0
Current Account Balance	–8.2	–10.4	–10.3	–7.0	–8.4	–8.1	–7.3	–6.4
Overall Fiscal Balance	–3.5	–3.3	–2.3	–2.3	–2.7	–2.4	–2.3	–2.3
Inflation, p.a. (annual growth)	8.0	10.7	2.1	3.6	5.0	6.2	5.7	5.2

Sources: National authorities; and IMF staff calculations and projections.
CCA oil exporters: Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan.
CCA oil importers: Armenia, Georgia, the Kyrgyz Republic, and Tajikistan.

Основные положения по региону КЦА

Экономическая активность в регионе Кавказа и Центральной Азии (КЦА) снижается, главным образом вследствие замедления экономического роста в краткосрочной перспективе и усиливающейся региональной напряженности, затрагивающих Россию, одного из основных торговых партнеров и источников притока денежных переводов и инвестиций в эти страны, а также в результате ослабления внутреннего спроса в ряде стран КЦА. В краткосрочной перспективе преобладают риски снижения темпов роста, связанные с развитием ситуации в странах – крупных торговых партнерах. Необходимо направить меры политики на укрепление экономической стабильности и, когда это требуется, краткосрочную поддержку слабого экономического роста. Кроме того, требуется новая модель обеспечения высокого, устойчивого, диверсифицированного и всеобъемлющего роста, которая бы определила направление экономической политики на следующее десятилетие.

Неблагоприятные факторы, связанные с экономикой России

Ослабление внутреннего спроса и вторичные эффекты замедления роста в России ведут к снижению темпов экономического роста в КЦА до примерно 5½ процента в 2014–2015 годах, на ¾ процентного пункта ниже, чем прогнозировалось в майском Бюллетене «Перспектив развития региональной экономики» 2014 года. Несмотря на замедление роста и снижающиеся цены на продукты питания, ожидается повышение инфляции примерно до 6½ процента в 2014–2015 годах под влиянием недавнего снижения обменного курса, особенно в Казахстане.

Риски направлены в сторону снижения темпов роста. Дальнейшее усиление геополитической напряженности между Россией и Украиной может иметь значительные последствия для региона КЦА как в краткосрочной, так и в среднесрочной перспективе. Продолжительный период более медленного роста в других торговых партнерах, особенно в Европе или Китае, также негативно сказался бы на внешнем спросе. Внутренние риски связаны с задержками или обратным ходом в проведении способствующих росту структурных реформ, особенно в сферах управления и конкуренции.

Реформы должны обеспечить поддержку стабильности и роста

Состояние бюджетов в странах региона ухудшается. Ввиду сокращающихся бюджетных профицитов и более высоких расчетных цен на нефть, требуемых для сбалансированности бюджета, экспортеры нефти КЦА подвергаются более высоким бюджетным рискам, и им необходимо постепенно укреплять государственные финансы, сдерживая рост расходов и увеличивая налоговые поступления. Приостановка бюджетной консолидации является оправданной в странах с менее благоприятными краткосрочными перспективами роста, особенно среди импортеров нефти и газа в регионе, хотя бюджетную консолидацию необходимо возобновить, когда это позволят сделать циклические условия, чтобы восстановить резервы для защиты от будущих шоков.

Возобновившееся инфляционное давление требует проведения осторожной денежно-кредитной политики. Если инфляционное давление будет сохраняться, может потребоваться ужесточить денежно-кредитную политику, особенно в Казахстане. Многим странам необходимо укреплять основы денежно-кредитной политики, отказываясь от таргетирования обменного курса и внедряя новые внушающие доверие ориентиры политики. Чтобы повысить эффективность денежно-кредитной

политики, странам необходимо укрепить механизм передачи ее воздействия, повышая для этого качество банковских кредитов и противодействуя долларизации и целевому кредитованию.

Странам КЦА необходимо усовершенствовать свою модель роста. Прошедшие два десятилетия характеризовались высокими темпами роста, но рост оставался нестабильным и зависел от биржевых товаров, а бедность и безработица все еще являются серьезными проблемами. Кроме того, среднесрочные перспективы роста в регионе ухудшаются быстрее, чем в других регионах мира. Необходимы комплексные реформы в области управления, качества регулирования и обеспечения верховенства закона, чтобы создать благоприятные условия для устойчивого повышения производительности, занятости и темпов роста на справедливой основе. В числе важных приоритетов—дальнейшая диверсификация экономики стран, специализирующихся на биржевых товарах, улучшение доступа к финансированию, совершенствование делового климата и осуществление сбалансированной интеграции торговли на региональном и многостороннем уровнях.

Регион КЦА: отдельные экономические показатели, 2000–17 годы

(в процентах ВВП, если не указано иное)

	Среднее 2000–10	2011	2012	2013	Прогнозы 2014	2015	2016	2017
КЦА								
Реальный ВВП (годовой рост)	9.1	6.7	5.6	6.6	5.5	5.6	5.3	5.5
Сальдо счета текущих операций	0.8	7.3	3.2	1.9	1.6	0.7	0.7	1.0
Общее сальдо бюджета	2.2	6.7	4.7	2.8	1.6	1.0	1.2	1.0
Инфляция за год (годовой рост)	9.8	9.0	5.3	6.0	6.4	6.4	6.4	6.4
Страны-экспортеры нефти КЦА								
Реальный ВВП (годовой рост)	9.5	6.7	5.6	6.8	5.6	5.7	5.4	5.5
Сальдо счета текущих операций	2.1	9.3	4.7	2.8	2.7	1.6	1.4	1.7
Общее сальдо бюджета	2.9	7.9	5.5	3.4	2.1	1.4	1.6	1.3
Инфляция за год (годовой рост)	10.0	8.8	5.7	6.3	6.5	6.5	6.5	6.5
Страны-импортеры нефти КЦА								
Реальный ВВП (годовой рост)	6.6	6.4	5.4	5.6	4.6	4.9	4.9	5.0
Сальдо счета текущих операций	–8.2	–10.4	–10.3	–7.0	–8.4	–8.1	–7.3	–6.4
Общее сальдо бюджета	–3.5	–3.3	–2.3	–2.3	–2.7	–2.4	–2.3	–2.3
Инфляция за год (годовой рост)	8.0	10.7	2.1	3.6	5.0	6.2	5.7	5.2

Источники: официальные органы стран и расчеты и прогнозы персонала МВФ.
Страны-экспортеры нефти КЦА: Азербайджан, Казахстан, Туркменистан и Узбекистан.
Страны-импортеры нефти КЦА: Армения, Грузия, Кыргызская Республика и Таджикистан.

3. Caucasus and Central Asia: Increased Risks Highlight Need for Reform

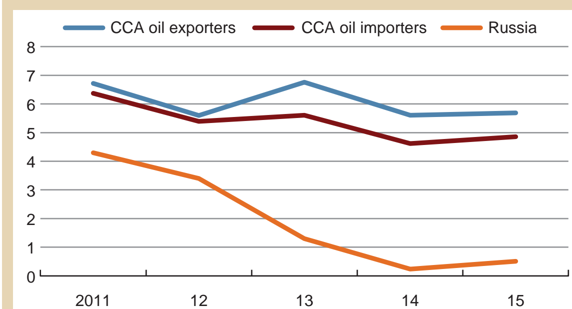
Economic growth in the Caucasus and Central Asia (CCA) is expected to decline from 6.6 percent in 2013 to about 5.5 percent in 2014–15. The forecast is ¾ percentage point weaker than in the May 2014 Regional Economic Outlook *Update, mainly because of negative spillovers from an economic slowdown and increased geopolitical risks in Russia and weaker domestic demand in a number of CCA countries. Inflation pressures are rising because of weakened exchange rates. Risks are tilted to the downside; in particular, a deeper or more protracted Russian slowdown could further weaken remittances, exports, and investment. Over the near term, countries should stand ready to tighten monetary policy if inflation pressures persist. A pause in fiscal consolidation is justifiable in some cases in response to weaker growth prospects. Medium-term policy priorities center on building credible anchors for monetary policy, introducing greater exchange rate flexibility to buffer against shocks, and growth- and equity-friendly fiscal consolidation to preserve debt sustainability and ensure intergenerational equity. Bold structural reforms that lead to better institutions, good governance, and vibrant business environments are necessary for the region to achieve an economic model that is sustainable, more inclusive, and diverse.*

Russia's Slowdown Is Weighing on CCA Economic Activity

Countries of the CCA region are expected to grow at about 5.5 percent in 2014–15, down from 6.6 percent last year (Figure 3.1), mainly because of weaker domestic demand in the region's oil exporters and weaker exports in the region's oil importers due to subdued economic activity in Russia, a key trading partner and source of remittances (Figure 3.2).

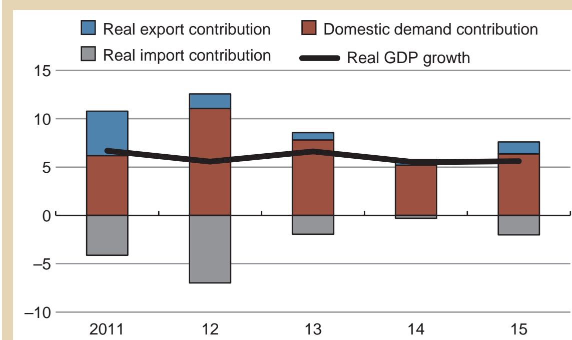
In the region's oil exporters, high oil prices, large policy buffers, and diversified export markets reduce the impact of Russia's slowdown. However, economic growth is still expected to soften from 6.8 percent in 2013 to about 5.6 percent in 2014–15. The reduction in oil exporters' growth mainly reflects further delays in the production of the Kashagan oil field in Kazakhstan and weaker domestic demand growth in Azerbaijan. Non-oil growth in oil exporters is projected to decline by about 1 percentage point to about 7¼ percent in 2014–15 on the back of slower consumer lending, following the implementation of macroprudential measures; increased investor

Figure 3.1
Real GDP Growth
(Annual percent change)



Sources: National authorities; and IMF staff calculations.

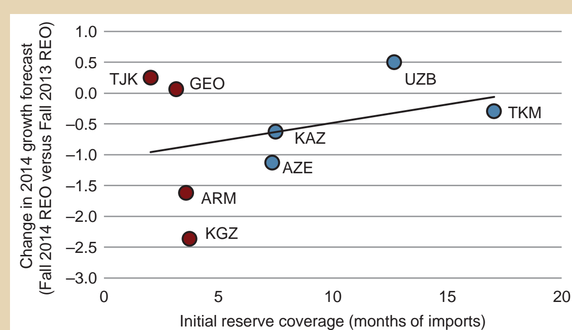
Figure 3.2
CCA: Real GDP Growth
(Annual percent change)



Sources: National authorities; and IMF staff estimates.

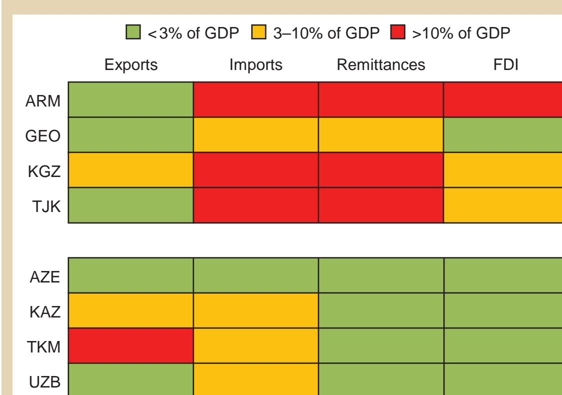
Prepared by Sami Ben Naceur and Amr Hosny, with research assistance by Greg Hadjian.

Figure 3.3
Growth Revisions versus Policy Buffers



Sources: National authorities; and IMF staff estimates.

Figure 3.4
Linkages with Russia



Sources: National authorities; and IMF staff estimates.
Note: FDI = foreign direct investment.

caution resulting from the devaluation of the tenge and other CCA currencies; and increased geopolitical risks surrounding the conflict between Russia and Ukraine.

In the region's oil importers, larger remittance and trade linkages with Russia, coupled with limited initial policy space, will reduce growth from 5.6 percent in 2013 to 4.6 percent in 2014, despite the expected recovery in Georgia (Figure 3.3). Growth is expected to pick up steadily in 2015 and beyond, supported by gradual fiscal consolidation and a reduction of external vulnerabilities. Armenia's favorable new five-year gas supply agreement with Russia and Gazprom, and large infrastructure projects in the Kyrgyz Republic, will also contribute to the recovery in the medium term.

Risks Are Largely to the Downside

External risks stem from an escalation of the Russia-Ukraine crisis and further tightening of sanctions against Russia, as well as from faster-than-expected increases in U.S. interest rates over the near term. Over a longer time horizon, lower potential growth and/or secular stagnation in advanced economies, and a protracted slowdown in emerging market economies, including a hard landing in China, are the key risks.

Geopolitical risks surrounding the Russia-Ukraine situation dominate the outlook. A deeper or more protracted Russian slowdown will have a significant impact on CCA economies through remittances (Armenia, Kyrgyz Republic, Tajikistan), trade (Kazakhstan, Kyrgyz Republic, Turkmenistan), and direct investment (Armenia, Kyrgyz Republic, Tajikistan) channels (Figure 3.4) (see also Box 3.1 for estimates of how Russia's slowdown could affect the CCA economies).

Risks of a protracted period of slower growth in advanced economies, including the possibility of deflation in the euro area and emerging market economies, especially the rebalancing of growth in China, could suppress exports and GDP growth in the CCA. Normalization of U.S. monetary policy might put pressure on domestic interest rates, but the effect is likely to be small, given the CCA's limited international financial linkages (see November 2013 *Regional Economic Outlook: Middle East and Central Asia* [REO] and May 2014 REO Update).

On the domestic front, the main risks stem from reversals or delays in growth-enhancing structural reforms (for example, Armenia, Azerbaijan, Kazakhstan, and Uzbekistan), particularly in market-sustaining reforms such as governance of enterprises and competitive institutions (Figure 3.5). In Armenia, the recent Eurobond issue and the gas agreement should mitigate the risk of rising financing pressures for the government and increasing energy costs, but risks associated with the implementation of improvements in the business environment remain.

Box 3.1

Growth Shocks in Russia: Implications for the CCA

Growth in Russia significantly affects the economic prospects of neighboring countries, including those in the CCA, through a number of channels, particularly exports and remittances:

- IMF analytical work suggests that a 1 percentage point decrease in Russia's GDP would diminish CCA nonhydrocarbon exports by an estimated ¾ percent. Russian gas imports from Turkmenistan for domestic consumption could also be lower. CCA crude oil is exported to a global market and price impacts would be moderate.
- A 1 percentage point decrease in Russia's GDP would reduce remittances to the CCA countries by about 1½ percent. If the Russian ruble were to depreciate relative to that of a CCA country, the purchasing power of remittances could decrease further. This channel is especially important in the CCA oil importers, where remittances comprise a sizable share of national income (see Figure 3.4).

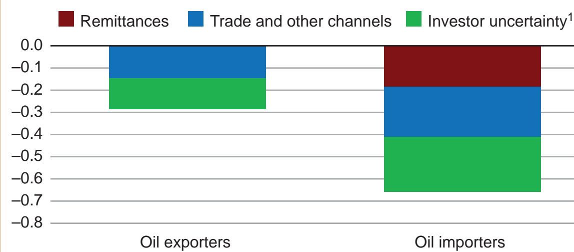
The impact of a slowdown in Russia's growth would be stronger in the CCA oil importers. The magnitude would depend on the nature of the slowdown, particularly whether it reflects a cyclical aggregate demand shock, increased investor uncertainty motivated by geopolitical tensions, or sluggish potential growth.

- A cyclical shock would call for monetary easing in countries with low inflation, and for allowing automatic fiscal stabilizers to operate, in most cases. However, substantial further fiscal stimulus would generally only be an option in the oil exporters, as was the case in 2008–09. This difference, together with stronger linkages to Russia, would make the impact of a negative aggregate demand shock in Russia more acute in the CCA oil importers than in the CCA oil exporters. Overall, IMF staff estimates that a temporary fall of 1 percentage point in Russia's GDP growth in a given year would lower growth in the CCA oil exporters by about 0.15 percentage points and in the CCA oil and gas importers by about 0.4 percentage points in that year (Figure 3.1.1).

Figure 3.1.1

Impact of 1 Percentage Point Fall in Russia's GDP Growth and Investor Uncertainty on CCA GDP Growth

(Percent)



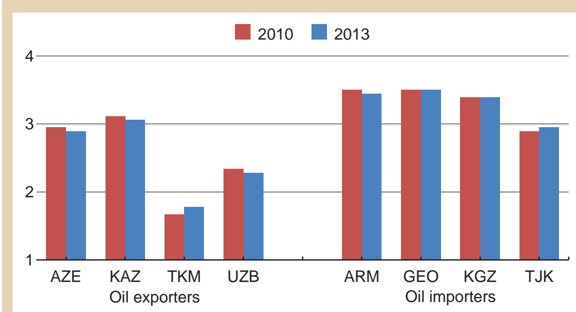
Sources: World Bank; and IMF staff calculations.

[1]Escalating geopolitical tensions raise risk premiums in Russia (by about 220 basis points) and other countries, including the CCA oil importers (by about 75 basis points) and CCA oil exporters (by about 45 basis points).

- If a slowdown in Russia were to be driven by elevated geopolitical tensions, additional investor uncertainty, not only about Russia but also countries located in close proximity, could lead to higher interest rates, lower investment, and weaker aggregate demand in the CCA. Confidence effects would be less acute in the CCA oil exporters because of their stronger macroeconomic positions and, possibly, increases in oil prices accompanying a rise in geopolitical tensions. These factors would amplify differences between the CCA oil exporters and importers in the size of the shock and the scope for a fiscal response. IMF staff estimates that, if a negative aggregate demand shock in Russia is accompanied by a decline in confidence and a rise in CCA risk premiums, growth could fall by about 0.3 percentage point and 0.7 percentage point in the CCA oil exporters and importers, respectively.
- If Russia's slowdown were to be structural and longer-lasting, the core transmission channels would be similar to those of the temporary demand shock, but the policy response would be different. In particular, countercyclical policy would be less appropriate because the shock would be persistent. Moreover, lower potential growth in Russia would mean that CCA growth—and hence tax revenues—would be lower than previously expected over the medium term, requiring a tighter medium-term fiscal stance.

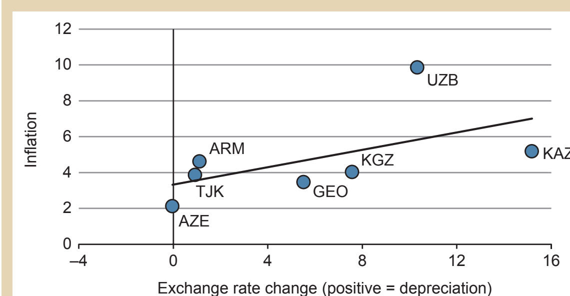
Prepared by Alberto Behar with inputs from Keiko Honjo and Ben Hunt.

Figure 3.5
Mixed Progress in Structural Reforms
(1 to 4+ scoring scale; higher is better)



Sources: Calculations based on European Bank for Reconstruction and Development Transition reports.

Figure 3.6
Inflation versus Nominal Exchange Rate Depreciation
(Year-over-year percent change through end-February 2014)



Sources: National authorities; and IMF staff calculations.

Table 3.1. Exchange Rate and Monetary Frameworks

	Monetary Policy Framework			
Exchange Rate Arrangement	**U.S. Dollar or Euro Anchor**	**Monetary Target**	**Inflation Targeting**	**Other**
Conventional Peg	Comoros, South Sudan, Turkmenistan, Venezuela			
Stabilized Arrangement	Kazakhstan, Macedonia, Vietnam[1]	Bangladesh,[1] Congo,[1] Tajikistan[1]		Angola,[1] Azerbaijan[1]
Crawl-like Arrangement	Croatia, Jamaica	China,[1] Uzbekistan[1]	Armenia, Dominican Republic[1]	Belarus
Other Managed Arrangement		Nigeria, Rwanda	Czech Republic	Kyrgyz Republic, Russia
Floating			Brazil, Georgia, Romania, South Africa, Turkey	India
Free-Floating			Chile, Mexico, Poland	

Sources: IMF, Annual Report on Exchange Arrangements and Exchange Restrictions; and IMF country reports.
[1] These countries maintain a de facto exchange rate anchor to the U.S. dollar.

Inflation Pressures Call for Effective Monetary Policy Frameworks

Upward inflation pressures are expected throughout the region, with inflation projected to reach 6.4 percent in 2014, up from 6 percent in 2013, mainly because of nominal depreciations/devaluations and higher food prices in some countries (Figure 3.6), except in Armenia and Georgia, where inflation is expected to be below the central bank's target. The authorities should stand ready to tighten monetary policy if inflation pressures persist, especially in Kazakhstan. Countries of the region need to strengthen and modernize monetary policy frameworks and improve the monetary transmission mechanism. This will require enhancing monetary operations and liquidity management, as well as employing clear policy interest rate instruments, strengthening macroeconomic analysis and forecasting, and improving regular communication about policy direction.

In the CCA oil and gas exporters, inflation is expected to increase slightly to 6.5 percent in 2014, up from 6.3 percent in 2013. The February devaluation of the Khazakhstani tenge is expected to raise inflation, but will maintain it within the central bank's target range. Continued volatility in money markets, impaired balance sheets, and high financial dollarization may further complicate the conduct of monetary policy, especially in countries where exchange rates are used as an anchor or policy instrument, as in Kazakhstan and Turkmenistan. In most countries, moving toward more effective monetary and exchange rate frameworks would require the adoption of effective interest rate instruments, supported by open market operations and a gradual widening of the exchange rate band. As indicated in Table 3.1,

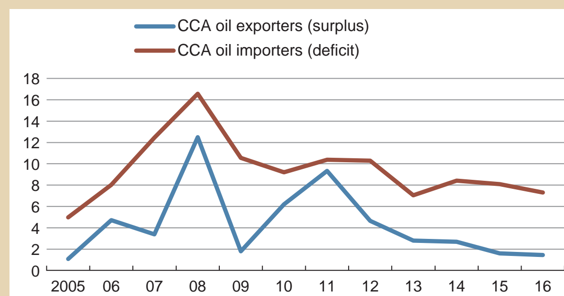
most CCA countries maintain pegged or managed exchange rate regimes, in contrast to many of their peers who have allowed greater exchange rate flexibility and, in some cases, have moved to inflation targeting. In Uzbekistan, continuous increases in administered prices and nominal depreciation mean that inflation will likely remain in the double digits, calling for tighter monetary policy and abstention from intervening in the foreign exchange market.

In the CCA oil importers, inflation is expected to accelerate from 3.6 percent in 2013 to about 5 percent in 2014–15. A weakening of the Russian ruble is putting pressure on the Kyrgyz and Tajik currencies, feeding quickly into inflation. In the Kyrgyz Republic, monetary policy is expected to remain tight, given pressures from the depreciation of trading partner currencies. In Tajikistan, the authorities should stand ready to tighten monetary policy, especially if high private credit growth persists. Monetary policy is appropriately accommodative in Armenia and Georgia, where inflation is still below the target for 2014.

Figure 3.7

Current Account Balances

(Percent of GDP)



Sources: National authorities; and IMF staff estimates.

External and Fiscal Positions Are Vulnerable

Weaker external demand is putting pressure on the external positions of most CCA countries. The current account surplus for the CCA region is projected to decline from 3.2 percent of GDP in 2012 to about 1.6 percent and 0.7 percent of GDP in 2014 and 2015, respectively, mainly driven by shrinking surpluses in the region's oil exporters (Figure 3.7).

For the CCA oil exporters, potential benefits from high oil and gas prices in 2014 are likely to be outweighed as weaker external demand, especially from Russia, puts pressure on current account balances. One exception is Kazakhstan, where a small improvement in the current account balance is expected from slower domestic demand growth and possible devaluation effects. External buffers remain large in most countries, owing to the accumulation of proceeds from commodity exports.

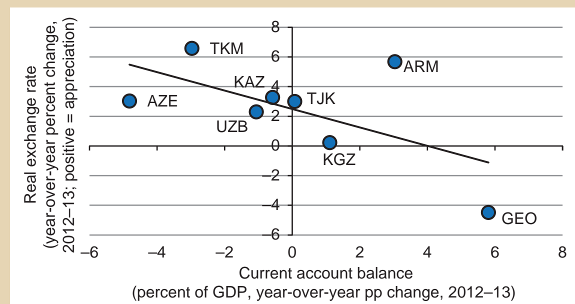
Lower remittances will worsen the external position of many oil importers, with the current account deficit expected to widen from 7 percent of GDP in 2013 to more than 8 percent of GDP in 2014–15. A rebound in imports, partly the effect of fiscal stimulus, and a weaker external environment are worsening Georgia's external balances. Higher food and lower gold prices, and an import-intensive public investment program will continue to create pressures on the external balance in the Kyrgyz Republic. In Tajikistan, remittance inflows and export earnings from aluminum and cotton are declining, while imports are still growing, leading to low reserve coverage. In Armenia, on the contrary, the current account deficit is expected to decline: remittances have remained resilient, and the new gas price agreement with Russia includes lower gas prices at the border. Greater exchange rate flexibility would help buffer shocks, stem pressures on reserves, and protect export competitiveness (Figure 3.8).

Overall, fiscal surpluses in the region's oil exporters are expected to continue to weaken from 3.4 percent of GDP in 2013 to 2.1 percent of GDP and 1.4 percent of GDP in 2014 and 2015, respectively (Figure 3.9). Moreover, fiscal breakeven oil prices are increasing, indicating higher fiscal risks. Most country authorities plan to gradually reduce the non-oil fiscal deficits over the medium term by containing expenditures and improving tax collection. Although the introduction of the medium-term budget

Figure 3.8

Real Exchange Rate versus Current Account Balance

(2012–13)

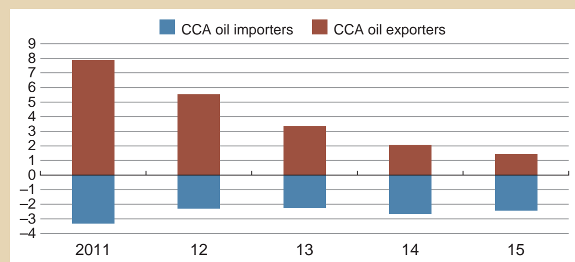


Sources: National authorities; and IMF staff calculations.

Figure 3.9

Fiscal Balances

(Percent of GDP)

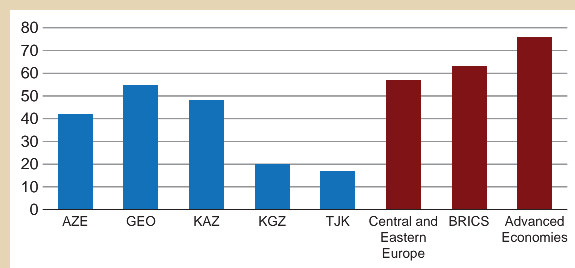


Sources: National authorities; and IMF staff estimates.

Figure 3.10

Fiscal Transparency Index[1]

(Index, latest available data; higher values are better)



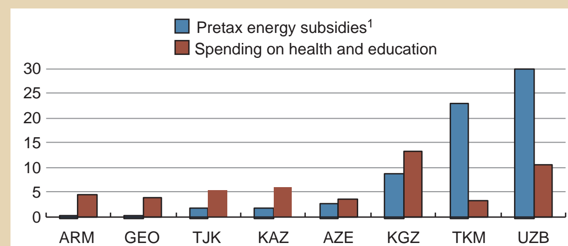
Source: International Budget Partnership.
[1]Measures the extent to which governments provide the public access to budget information and allow for participation in the budget process at the national level.

frameworks and budget codes in Turkmenistan and Uzbekistan is welcome, fiscal frameworks in a number of oil exporters should be extended to properly cover extrabudgetary activities and reflect the true stance of fiscal policy (Figure 3.10).

Figure 3.11

Pretax Energy Subsidies and Spending on Health and Education

(Percent of GDP, latest available data)



Sources: *Deutsche Gesellschaft für Internationale Zusammenarbeit*; IMF, World Economic Outlook database; International Energy Agency; Organisation for Economic Co-operation and Development; national authorities; World Bank; and IMF staff estimates. For details on subsidy calculations, see Clements and others (2013).
[1]Includes petroleum, electricity, natural gas, and coal subsidies.

In the CCA oil importers, general government fiscal deficits are projected to worsen from 2.3 percent of GDP in 2013 to 2.7 percent of GDP in 2014, driven by modest fiscal stimulus in Armenia and Georgia—though challenges in overcoming budget underimplementation may jeopardize the fiscal impulse in the latter. The region's fiscal deficit is expected to improve slightly to 2.4 percent of GDP in 2015, reflecting lower deficits in Georgia and the Kyrgyz Republic (Figure 3.9).

In 2014, fiscal consolidation will continue in Azerbaijan, the Kyrgyz Republic, and Tajikistan, but will be delayed in Armenia, Georgia, and Kazakhstan. Although a pause in fiscal consolidation is justifiable in response to less favorable growth prospects in these countries, a return to gradual consolidation over the medium term is essential to build up buffers and place public debt on a declining path. In particular, streamlining nonpriority expenditures, effective targeting of social safety nets (in all countries), pension reform (in Azerbaijan and the Kyrgyz Republic), and scaling down energy subsidies (in Turkmenistan and Uzbekistan) can free resources for private sector expansion (Figure 3.11). Rebalancing the tax structure toward indirect taxes, and widening the revenue base by reducing tax incentives and exemptions, together with a supportive tax administration, can help create additional fiscal space. More efficient public investment, through better public procurement and continuous evaluation and

monitoring, can help boost growth and create jobs while preserving fiscal sustainability (Annex II).

Stronger Financial Systems Are Needed to Support Growth

Over the past two decades, the CCA countries have laid the foundations for a modern financial system, allowing financial intermediation in the region to improve considerably. Notwithstanding this progress, the financial system remains underdeveloped compared with those in many emerging markets. High dollarization is still a serious concern in the region, and can only be reduced with greater macroeconomic stability, sound monetary and exchange rate policies, and supportive prudential measures (Box 3.2). Other pressing issues vary across countries but often include the resolution of nonperforming loans (NPLs), curbing consumer lending, and curtailing directed lending.

Progress in dealing with these issues has been mixed. Enforcing NPL ceilings, increasing financing and coverage of the problem loan fund in Kazakhstan, stronger enforcement of provisioning rules in Kazakhstan and Tajikistan, and stricter requirements for the accurate classification of

Box 3.2

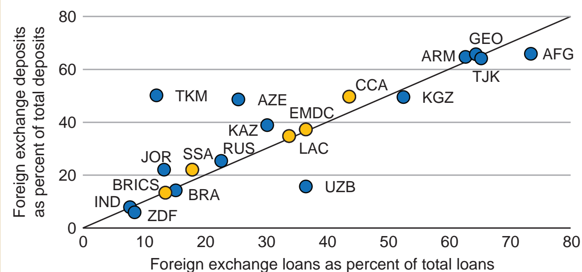
Reducing Financial Dollarization in the CCA

Financial dollarization in the CCA, among the highest in the world, is complicating the management of macroeconomic policy and increasing financial risks. The CCA countries have high levels of foreign exchange (FX) deposits and loans, compared with other emerging market economies (Figure 3.2.1).[1] Although dollarization in the region has declined since 2000, this trend reversed in the aftermath of the global financial crisis. A highly dollarized financial system can limit the effectiveness of monetary policy by weakening standard transmission mechanisms, and increase balance sheet and liquidity risks stemming from mismatches between U.S. dollar assets and liabilities in the private sector's balance sheet. High dollarization may also augment the impact of exchange rate changes on inflation, particularly in managed exchange rate regimes, which are in place in some CCA countries (Table 3.1). It also requires higher reserve cushions.

Figure 3.2.1

Dollarization in Selected Countries

(Latest year available)



Sources: Financial Services Institute; national authorities; and IMF staff calculations.

Note: BRICS = Brazil, Russia, India, China, South Africa; EMDC = emerging market and developing countries; LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

An empirical study by IMF staff on the drivers of FX deposits and loans in the CCA, for the period 2001–14, finds that volatile inflation, currency depreciation, asymmetric exchange rate policy, and low financial depth have contributed significantly to financial dollarization in the region (Ben Naceur, Hosny, and Hadjian forthcoming). The study shows that frequent depreciations and high volatility of exchange rates are associated with a rise in FX deposits, while high inflation increases banks' lending in foreign currency. These results are broadly in line with the findings for other countries (see Neanidis and Savva 2009; Kokenyne, Ley, and Veyrune 2010). In contrast to experiences elsewhere, in the CCA, inflation volatility increases FX deposits and loans, and is a more important driver of dollarization than high inflation per se. The asymmetric nature of exchange rate policy in some CCA countries, which allows for depreciation but resists appreciation of the domestic currency, induces

Prepared by Sami Ben Naceur, Amr Hosny, and Greg Hadjian.

[1] The relatively low FX deposit ratio in Uzbekistan reflects the country's restrictive FX regulations.

Box 3.2 *(concluded)*

depositors to hold a higher share of FX deposits to preserve their purchasing power, to a greater extent than in other countries. Similar to the experience of dollarized economies in Latin America, high levels of FX deposits encourage banks to lend to domestic borrowers in foreign currency to maintain matched balance sheet positions. The study also finds that FX deposits and loans show strong persistence, and are higher, where there is less financial depth.

In light of these results, and building on successful dedollarization experiences in Latin America and emerging Europe, the CCA countries could consider a menu of macroeconomic and financial stability measures to reduce dollarization.

From a macroeconomic perspective, although there is no unique formula for success, credible monetary and exchange rate frameworks, low and stable inflation, and deeper domestic financial markets are essential ingredients of any dedollarization strategy. An inflation-targeting regime with flexible exchange rates and the absence of fiscal dominance would provide the best framework for market-driven financial dedollarization (Kokenyne, Ley, and Veyrune 2010). Proper sequencing of policies is also important. In countries with less flexible exchange rate regimes, a gradual widening of exchange rate bands, more efficient liquidity management, and effective policy rates could help improve the monetary transmission mechanism. More transparent and effective communication by central bank officials is also important to build public trust in the credibility of monetary policymaking.

IMF staff's empirical results also underline the importance of financial development for successful dedollarization. Introduction of local currency–denominated securities with credible indexation systems, development of markets for instruments to hedge currency risks, enhancement of nonbanking institutions and capital markets, improvement of credit information systems, strengthening of supervision, removal of administrative controls on interest rates, and introduction of unbiased taxation on income earned from FX deposits, bonds, or other financial transactions versus local currency taxes are measures that can help discourage dollarization.

Successful dedollarization takes time. Over the short term, countries can focus on measures that make the local currency more attractive and reduce the asymmetry of exchange rate policy. Initiatives that have been successful in other countries include holding reserve requirements for FX deposits in local currency, imposing higher reserve requirements on FX deposits, remunerating the reserve requirement on local currency deposits at a higher rate than for FX deposits, raising insurance premiums on FX deposits, limiting FX lending to unhedged borrowers, and requiring banks to carry routine evaluations of currency risks.[2] When implementing these measures, policymakers need to account for risks from potential financial disintermediation and instability, and/or capital flight.

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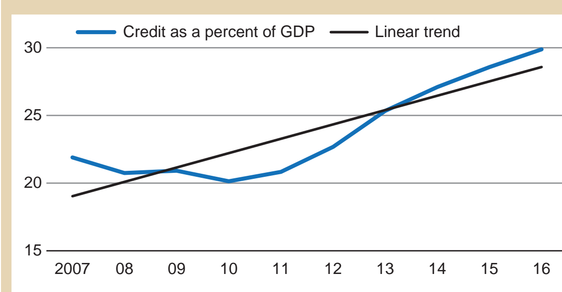
[2] See Cayazzo and others (2006), Rennhack and Nozaki (2006), Kokenyne, Ley, and Veyrune (2010), and García-Escribano and Sosa (2011) for summaries of successful dedollarization experiences in Latin America and emerging Europe.

NPLs in Azerbaijan and Kazakhstan are still needed. Azerbaijan and Kazakhstan have put in place measures to curb strong growth in consumer lending, but progress in controlling and reducing directed lending in Azerbaijan and Turkmenistan has been slow (Figure 3.12).

To ensure resilience and financial stability as markets develop and financial access expands, it is important for CCA countries to strengthen prudential regulation and supervision, and enhance corporate governance and risk management. Specifically, the region's

Figure 3.12
Credit to GDP versus Trend



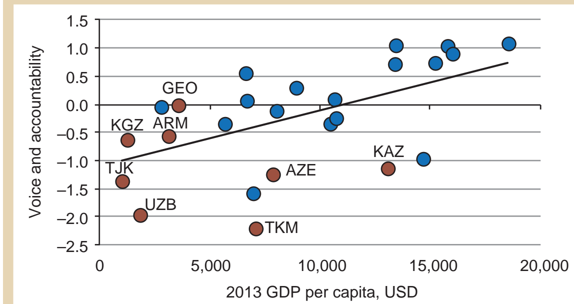
Sources: National authorities; and IMF staff calculations.

underdeveloped banking sector requires stronger regulatory frameworks, faster progress in restructuring state-owned banks, and measures to improve financial access, strengthen competition, and boost credit markets (Annex III).

Figure 3.13

CCA versus Emerging Markets: Voice and Accountability

(–2.5 to +2.5 score, higher is better)



Sources: IMF; and World Bank, World Governance Indicators.

Time for a New Economic Model

Despite two decades of strong economic performance, poverty and inequality rates remain high in the CCA. Emigration and unemployment, especially among the youth, are also persistently high. The region's past growth was mainly driven by volatile sources such as commodity exports and remittance flows. The CCA countries are in need of a new economic model that can deliver sustainable, inclusive, more diversified, and less volatile growth. Bolder structural reforms, in several areas, are required to overcome the long-lasting impediments that are preventing the region from moving toward a new economic model and achieving its potential (see also IMF 2014b).

Higher, inclusive, and sustainable growth requires an increasing focus on productivity as a key driver (Annex I). During the past decade, economic growth in the CCA countries was driven by capital accumulation to a much larger extent than in other emerging markets that have comparable gaps in infrastructure (Annexes I–II). For productivity to make a larger contribution to growth, bold reforms are necessary to develop worker talent, competitiveness of the business environment (especially governance, regulatory quality, and the rule of law), and labor market efficiency (Figure 3.13 and Annex I). CCA countries also need to speed up structural reforms in areas such as governance, business climate, education, the financial sector, and informality, to create an environment conducive to private sector–led growth (Figure 3.14 and Annex I). Perceived corruption continues to be a main hurdle for business development; progress in eradicating corruption has been mixed (Figure 3.15).

Although economic growth in the region has been strong over the past decade, employment has not kept pace, suggesting an urgent need to improve frameworks for economic decision making and to increase focus on the inclusiveness of growth (Figure 3.16). Economic growth that is not inclusive, even if it is high, may fail to garner public support over the long term and thus may not be sustainable (Annex IV). Broader institutional reforms will not only promote inclusiveness, but will also help release constraints on the implementation of other structural reforms. Recent studies (Ben Naceur and Zhang forthcoming) show that measures such as increased trade and financial integration, and strengthening financial access (Annex III), deepening, and stability can reduce poverty and promote inclusive growth in the CCA.

Creating a diverse and dynamic non-oil tradable sector is another priority for the region. Recent studies (Cherif and Hasanov 2014) show that further export diversification will require better infrastructure and legal frameworks, technological upgrades, and measures to address market imperfections (Figure 3.17). Countries can start by promoting linkages and diversification in the industries where they enjoy a comparative advantage.

Balanced regional and multilateral trade integration initiatives can also help diversify economies and improve medium-term growth prospects. Recent efforts in these areas are welcome, including the accession of Kazakhstan to the World Trade

Figure 3.14

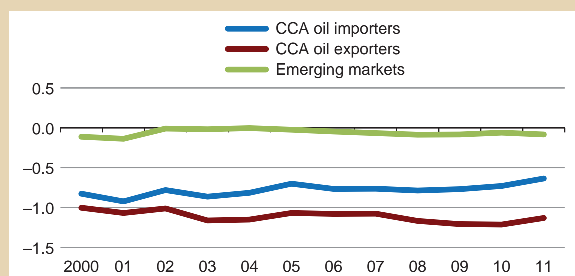
Sustainable Growth Requires Bold Structural Reforms[1]

Sources: Labor: World Economic Forum (WEF); Corruption: PRS; Infrastructure: WEF; Trade: WEF; Education: WEF; Legal: WEF and World Bank Doing Business; Finance: WEF and World Bank Doing Business; Bureaucracy: PRS; Regulations: World Bank Worldwide Governance Indicators.
[1]Data unavailable for Tajikistan, Turkmenistan, and Uzbekistan.

Figure 3.15

Control of Corruption[1]

(Score; higher is less corruption)

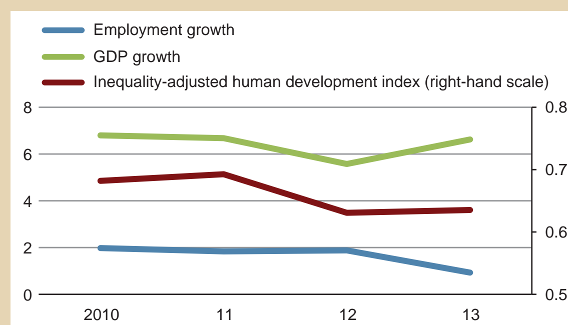


Source: World Bank, World Governance Indicators.
[1]Reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

Figure 3.16

CCA: Growth, Inequality, and Employment

(Year-over-year percent change, unless noted)

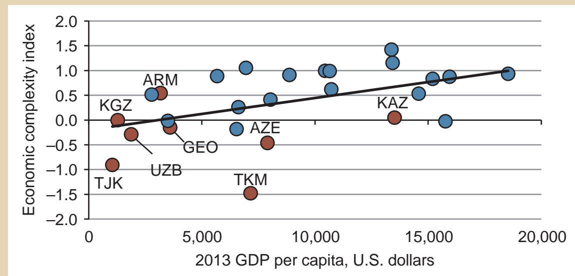


Sources: National authorities; United Nations Human Development Index; and IMF staff estimates.

Figure 3.17

CCA versus Emerging Markets: Economic Complexity[1]

(–3 to +3 scoring scale; higher is better)



Source: Economic Complexity Index, http://atlas.media.mit.edu/ranking/country.

[1]Measures productive knowledge and economic sophistication, based on trade statistics.

Organization, expected by year-end, and Georgia's harmonization with the European Union with the signing of the recent Deep and Comprehensive Free Trade Agreement. Progress on the Eurasian Economic Union (EEU) also offers prospects for enhanced trade and financial flows, with Armenia and the Kyrgyz Republic expected to join Belarus, Kazakhstan, and Russia in the future. Although the EEU will provide member countries with access to large regional markets and, potentially, additional project financing from Russia, important challenges exist, including higher common tariffs in the EEU than exist now in Armenia and the Kyrgyz Republic. Negotiations will be required to avoid conflict with Armenia's World Trade Organization obligations, and, in the case of the Kyrgyz Republic, to slow tariff increases. The impact on medium-term growth will depend on the trade creation and diversion that would result from a high common external tariff, as well as on how the EEU rules and regulations on the mobility of goods, capital, and labor will be implemented (Annex V).

CCA: Selected Economic Indicators

	Average 2000–10	2011	2012	2013	Projections 2014	Projections 2015
Real GDP Growth	**9.1**	**6.7**	**5.6**	**6.6**	**5.5**	**5.6**
(Annual change; percent)						
Armenia	8.2	4.7	7.1	3.5	3.2	3.5
Azerbaijan	13.9	0.1	2.2	5.8	4.5	4.3
Georgia	5.9	7.2	6.2	3.2	5.0	5.0
Kazakhstan	8.5	7.5	5.0	6.0	4.6	4.7
Kyrgyz Republic	4.2	6.0	–0.9	10.5	4.1	4.9
Tajikistan	8.0	7.4	7.5	7.4	6.0	6.0
Turkmenistan	13.8	14.7	11.1	10.2	10.1	11.5
Uzbekistan	6.7	8.3	8.2	8.0	7.0	6.5
Consumer Price Inflation	**9.8**	**9.0**	**5.3**	**6.0**	**6.4**	**6.4**
(Year average; percent)						
Armenia	3.9	7.7	2.5	5.8	1.8	3.8
Azerbaijan	7.1	7.9	1.0	2.4	2.8	3.0
Georgia	6.4	8.5	–0.9	–0.5	4.6	4.9
Kazakhstan	9.0	8.3	5.1	5.8	6.9	6.1
Kyrgyz Republic	8.6	16.6	2.8	6.6	8.0	8.9
Tajikistan	15.5	12.4	5.8	5.0	6.6	8.3
Turkmenistan	7.4	5.3	5.3	6.8	5.0	5.5
Uzbekistan	15.5	12.8	12.1	11.2	10.0	11.2
General Government Overall Fiscal Balance	**2.2**	**6.7**	**4.7**	**2.8**	**1.6**	**1.0**
(Percent of GDP)						
Armenia[1]	–3.5	–2.9	–1.6	–1.7	–1.7	–2.0
Azerbaijan[1]	4.2	13.6	4.9	0.8	0.3	–1.7
Georgia	–3.1	–3.6	–3.0	–2.6	–3.7	–3.0
Kazakhstan	2.5	5.9	4.5	5.0	3.7	3.1
Kyrgyz Republic	–4.1	–4.6	–5.3	–4.0	–4.4	–3.2
Tajikistan	–3.2	–2.1	0.6	–0.8	–0.6	–1.3
Turkmenistan[2]	3.1	3.6	6.4	1.3	0.0	0.6
Uzbekistan	2.3	8.8	8.5	2.9	0.6	0.5
Current Account Balance	**0.8**	**7.3**	**3.2**	**1.9**	**1.6**	**0.7**
(Percent of GDP)						
Armenia	–9.3	–11.1	–11.1	–8.0	–7.7	–7.3
Azerbaijan	5.3	26.5	21.8	17.0	14.6	10.4
Georgia	–11.5	–12.8	–11.7	–5.9	–8.4	–7.9
Kazakhstan	–1.5	5.4	0.5	–0.1	0.3	–0.7
Kyrgyz Republic	–3.1	–9.6	–15.9	–14.8	–14.2	–14.8
Tajikistan	–3.8	–4.8	–1.5	–1.4	–4.7	–3.6
Turkmenistan	4.3	2.0	0.0	–2.9	–1.9	–0.3
Uzbekistan	5.1	5.8	1.2	0.1	0.1	0.5

Sources: National authorities; and IMF staff estimates and projections.
[1]Central government.
[2]State government.

Annex I. Medium-Term Economic Prospects in the MENAP and CCA Regions

Economic growth potential in the Middle East and Central Asia is slowing faster than in other emerging market and developing regions, dampening hopes of reducing persistent unemployment and improving generally low living standards in the region. The reasons go beyond declines of potential growth in the region's advanced and emerging market trading partners; they are related to slowing productivity growth, declining worker participation, and especially in the Arab countries in transition, non-GCC oil exporters, and CCA oil importers, slowing capital investment. Policy priorities center on making the business environment more open and competitive, increasing public investment in infrastructure, reducing obstacles to labor market functioning, and nurturing worker talent. Improved access to finance and greater use of modern technologies play supporting roles. Together, these reforms can boost growth potential by 4 percentage points above current expectations—moving the region's living standards closer to emerging market and developing country (EMDC) levels.

Medium-term economic prospects hinge on the region's ability to expand production of goods and services for domestic and foreign markets. Such potential economic growth depends on how many people are employed in productive activities; on what physical capital they can use, such as buildings and machinery; as well as on the gamut of technological, structural, institutional, and policy factors that affect economic productivity—how many goods and services workers can produce using available machinery and other capital.[1] The use of technological innovations, such as computer and information technologies, is an example of a factor driving economic productivity.

Potential growth is not directly observable but can be estimated through a variety of techniques, including statistical filters and production-function approaches.[2] Uncertainties surrounding potential growth estimates are significant, especially for MENAP and the CCA, where statistics are incomplete and/or produced with a significant lag. To ensure the robustness of results, this annex uses several techniques to estimate potential growth. Although estimates vary across techniques, the relative potential growth rates across countries and regions, as well as the direction of their change over time, are consistent across techniques. Methodologies and estimates of potential growth in this annex are also broadly consistent with other recent studies (Cubeddu and others 2014). For oil-exporting economies, the focus here is on potential growth in the non-oil sectors, where such growth is currently driven largely by oil revenues (see Chapter 1). The annex also uses standard techniques to decompose potential growth into its underlying components (capital, labor, and economic productivity).

Potential Growth Is Slowing Faster Than in Other Regions

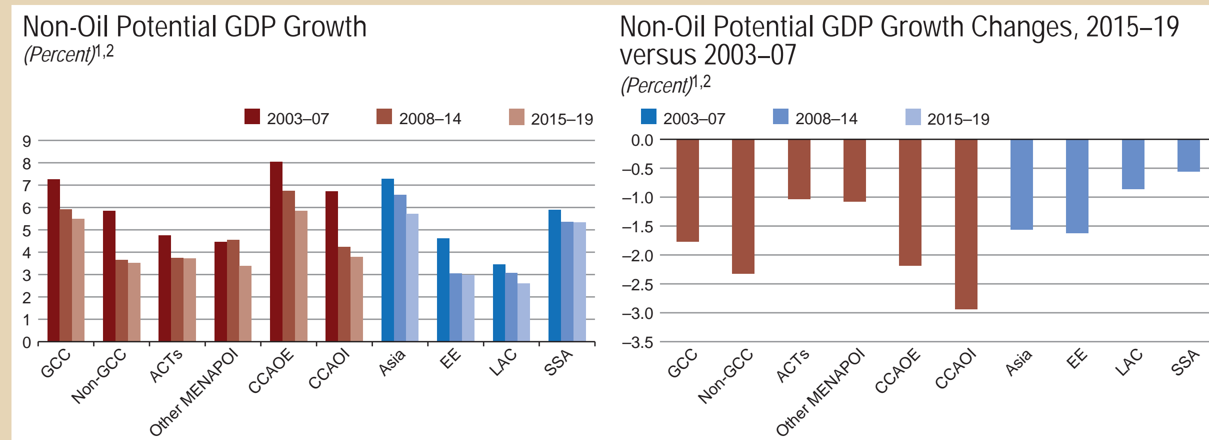
Potential growth rates vary widely across the MENAP and CCA. In particular, the economically less developed oil importers tend to have the lowest potential growth in the MENAP and CCA region (Figure A1.1)—well below the EMDC average. In contrast, the oil exporters—particularly in the GCC and CCA—have among the world's highest non-oil potential growth, comparable to emerging and developing Asia. In part, high non-oil potential growth rates are driven by oil-financed government spending, often in the nontradable sector, and is not sustainable (see Chapter 1).

Prepared by Gohar Abajyan, Mark Fischer, Amr Hosny, Gohar Minasyan, and Pritha Mitra (team lead).

[1] In this annex, terms such as "productivity" and "economic productivity" are used synonymously with "total factor productivity."

[2] Methodological details will be elaborated in Mitra and others (forthcoming).

Figure A1.1
Non-Oil Potential GDP Growth



Sources: IMF, World Economic Outlook database; International Labour Organization, Global Employment Trends; and IMF staff estimates.
Note: Red denotes CCA countries; blue denotes other countries; EE = emerging Europe; LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.
[1]PPP-weighted GDP used to calculate regional averages.
[2]Average across Hodrick-Prescott and Christiano and Fitzgerald filters and production function estimates. Mitra and others (forthcoming) provides details.

The global financial crisis led to a decline in potential growth in advanced and emerging market economies. Prior to the global financial crisis (during 2003–07), strong investor confidence led to the rapid creation of physical capital, innovation, and productivity growth across the world. As a result, EMDCs' potential growth strengthened. The crisis sharply reversed these trends, and potential growth in both advanced and emerging market economies declined after 2008, as is well documented in earlier studies.[3]

A novel finding is that MENAP and CCA potential growth rates are slowing by more than in other EMDCs (Figure A1.1). The slowdown in potential growth is especially strong in the CCA oil importers, possibly because of their strong linkages to Russia, where the slowdown in potential growth is pronounced owing to inadequate physical infrastructure, overreliance on commodities, a weak business climate, and negative demographics.[4] In the MENAP region (except the GCC), further loss of confidence amid intense conflicts in the region and in the aftermath of the Arab Spring in 2011 compounded the effect of the global financial crisis, leading to a sharp drop in potential growth just after 2010. In the GCC, the erosion of non-oil potential growth has been slightly offset by continued physical infrastructure investment financed by savings from high oil prices. Overall, declines in potential growth in the MENAP and CCA regions exceed the respective averages for EMDCs by ¾ of a percentage point over the next five years.

Reasons behind Declines in Potential Growth Vary

- **MENAP and CCA oil exporters** (Figure A1.2). Continued infrastructure creation drives non-oil potential growth in the GCC and CCA oil exporters. These benefits are offset by declining contributions of labor and productivity, in part the result of reliance on abundantly available low-skilled foreign workers, cheap energy, and potential weaknesses in public investment quality, and absorptive capacity (IMF 2013).

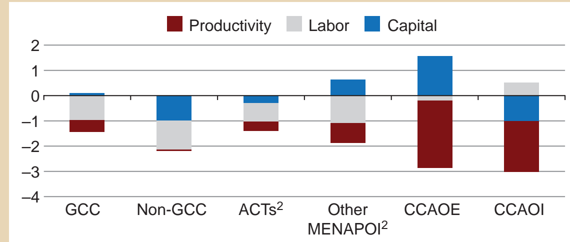
[3] Cubeddu and others (2014) assesses the factors behind falling historical and prospective growth in emerging markets. Also see Box 1.2 in the October 2013 *World Economic Outlook*.

[4] See Box 1.2 in the October 2013 *World Economic Outlook*.

Figure A1.2

Composition of Recent Non-Oil Potential Growth Slowdown

(Change in contributions from each factor of production, 2008–14 versus 2003–07, percentage points)[1]

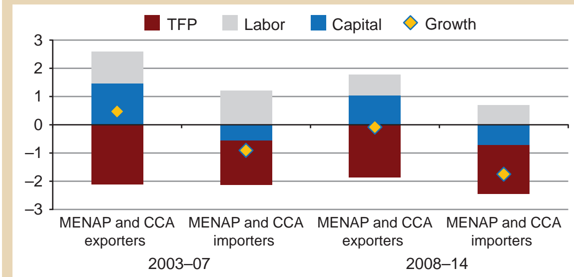


Sources: IMF, World Economic Outlook database; United Nations International Labour Organization; national authorities; and IMF staff estimates.
[1]Proportions of factors from production function decomposition applied to average potential growth estimates across methods.
[2]Compares contributions for each factor of production, 2011–14 versus 2003–10.

Figure A1.3

Drivers of Differences in Non-Oil Potential Growth with Emerging Market and Developing Countries

(Percentage points)[1]



Sources: IMF, World Economic Outlook database; United Nations International Labour Organization; national authorities; and IMF staff estimates
Note: TFP = total factor production.
[1]Average potential growth of MENAP and CCA less that of emerging market and developing country average.

In some cases, relevant structural reforms have been initiated but will only bear fruit with long lags. In non-GCC MENAP economies, lower public spending (owing to a decline in oil export revenues in the aftermath of the global financial crisis and intensified conflicts) has lowered capital accumulation, employment, and potential growth.

- **MENAP and CCA oil importers** (Figure A1.2). Outdated physical capital; inefficiency in using energy, capital, and talent; as well as weak global ties—inhibiting productivity that would result from adoption of the latest technologies, management techniques, and innovation—already limit potential growth. In the aftermath of the global financial crisis and the Arab Spring, strained public finances and lower investor confidence further reduced investment, in turn reducing the accumulation of physical capital and its contribution to potential growth. Cumbersome regulations, tax codes, and red tape tend to discourage productivity growth. Many countries have recently initiated reforms to address these obstacles, but reforms are frequently opposed by vested interests that have benefitted from highly concentrated private firm ownership (World Bank 2009a). In the MENAP oil importers, the workforce is young and not equipped with the skills needed for private sector jobs. Combined with the weak economic activity of recent years, this skills gap has raised unemployment so high as to discourage worker participation, lowering potential growth.[5]

What has not varied are the reasons why MENAP and CCA potential growth lags behind that of other EMDCs (Figure A1.3). Both before and after the global financial crisis, oil exporters' productivity contributions to non-oil potential growth, lower than in EMDCs, have been offset by larger physical capital and worker contributions. Oil importers' lower productivity has been compounded by lower contributions from physical capital than in EMDCs. These effects offset workers' positive contributions to potential growth, reflecting young populations and, in the GCC, high availability of low-skilled foreign workers.[6]

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[5] In part, this lower participation contribution reflects workers joining the informal workforce and partly the hysteresis effect, which reduces long-term potential output. In the near and medium term, during the transition to lower long-term potential output, the continuous flow of workers leaving the labor force reduces medium-term potential growth as well. Literature on the hysteresis effect suggests it is very challenging to bring discouraged workers back into the labor force in EMDCs.

[6] In contrast to the rest of the MENAP region, growth in GCC populations reflects immigrant workers.

Boosting overall MENAP and CCA productivity and MENAP oil importers' investment rates will be key to raising potential growth. A wide range of plausible annual productivity growth and investment-to-GDP ratio combinations—taking into account maximum plausible workforce growth—could raise potential growth.[7] For example, ACTs could reach average EMDC growth in five years with their current annual investment-to-GDP ratio (22 percent) combined with an increase in annual productivity growth from zero to 1½ percent (Mitra and others forthcoming). This would be a start to raising employment and living standards; however, over the longer term, much higher potential growth will be needed in the Arab Countries in Transition, and in the rest of the region, to significantly improve the welfare of the majority of the population (Mitra and others forthcoming). Over time, greater female worker participation can also contribute, especially in MENAP economies. In oil-exporting economies, beyond raising productivity in the non-oil sector, it will be particularly important to raise productivity in areas where the sensitivity of non-oil potential growth to oil-related activities can be reduced.

Policies to Raise Potential Growth

A broad range of factors influence potential growth: macroeconomic (e.g., exchange rate, and trade and investment policies) and structural (e.g., reforms in financial and real sectors, labor and product markets, and political stability).[8] Initial macroeconomic and sociopolitical conditions can help identify policies most likely to favor potential growth. For example, the results of efforts to increase the CCA workforce would be limited by already low unemployment and high male and female worker participation rates, and the GCC countries already have high rates of capital accumulation.

MENAP and CCA policymakers should focus on fostering worker talent, modernization of production methods, and recalibrating the role of the public sector to promote productivity growth (Figure A1.4). Cross-country regressions provide useful insights into policy priorities.[9] Years of schooling have increased, but workers still lack the skills needed for private sector jobs. Adoption of modern production methods, including the use of the latest technologies, management techniques, and innovation,[10] has been slow; low competitive pressures, reliance on low-cost foreign workers, cheap energy, monopolistic markets, or insufficient global integration may be factors. The government often has a dominant rather than supportive role. State-owned enterprises control the energy and banking sectors, whereas excessive red tape hampers private sector growth and perceived

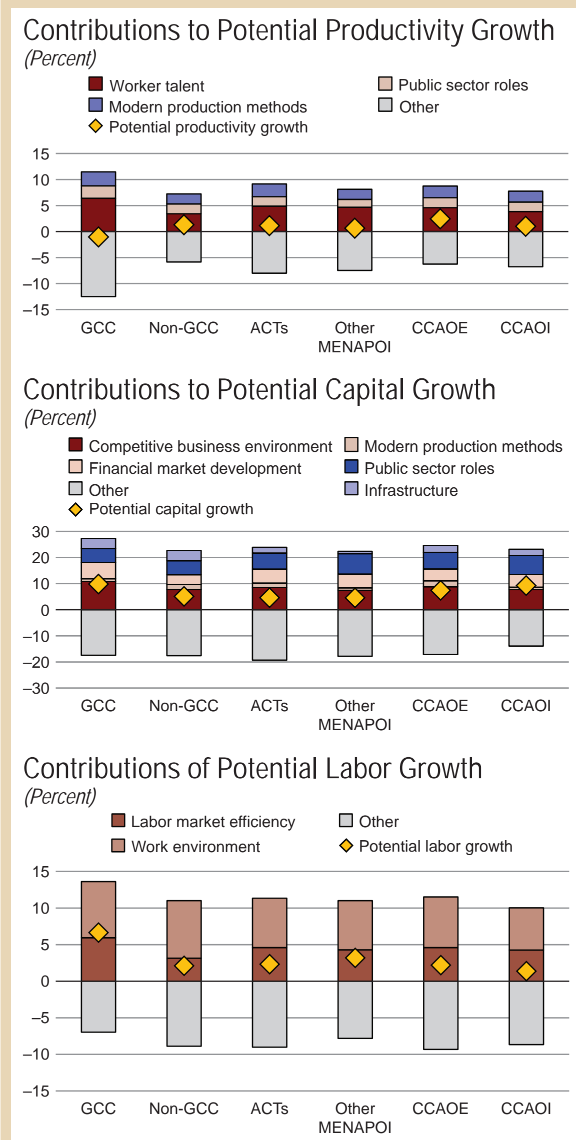
[7] Investment drives the accumulation or growth of physical capital. While there are no limits to productivity growth, increases in investment are limited by implementation capacity and availability of financing and profitable projects. Historically, investment-to-GDP ratios have rarely expanded beyond 10 percentage points over a five-year period. The detailed assumptions and calculations, and the full range of productivity growth and investment-to-GDP combinations that can raise MENAP and CCA subregions' growth to the EMDC average, are in Mitra and others (forthcoming).

[8] Barro (1997) and Barro and Sala-i-Martin (2004) provide comprehensive literature reviews.

[9] Based on cross-country regressions (sample of 107 countries) of productivity growth on a broad set of macroeconomic and institutional variables. See Mitra, Hosny, and Minasyan (forthcoming) for these details as well as a summary of references on how to improve human capital and cumbersome bureaucracies (including paying taxes), burdensome regulations, and customs procedures. The results are consistent with the broad findings of Dabla-Norris and others (2013), who examine the importance of productivity-enhancing reforms in EMDCs.

[10] In more detail, modern production methods can be measured as firm-level technology absorption, foreign direct investment and technology transfer, firms' use of information technology and capacity for innovation, research and development spending, and firms' reliance on professional management; these are found in the World Economic Forum Global Competitiveness Report (2014).

Figure A1.4
Contributions to Non-Oil Potential Growth



Sources: IMF, World Economic Outlook database; United Nations International Labour Organization, Global Employment Trends; World Bank, Doing Business Report; World Economic Forum, Global Competitiveness Report (2014); and IMF staff calculations. Mitra, Hosny, and Minasyan (forthcoming) provide details.

corruption discourages investment. In MENAP and the CCA, key policies that could turn the situation around include:

- Enhancing *worker talent*. Public-private sector coordination in curriculum design can better align education with private sector needs. MENAP and CCA economies can also take advantage of large diasporas with platforms where emigrants abroad can share their knowledge and expertise with businesses at home. Some successful diaspora networks elsewhere are Foundation Chile, South African Network of Skills Abroad, and Thailand's Reverse Brain Drain project.
- Encouraging *modern production methods* includes applying technologies and management techniques that help firms efficiently use energy, capital, and worker talent, and eliminating policies that hamper innovation. Increased openness to noncommodity trade with fast-growing economies can help by fostering vertically integrated global manufacturing chains,[11] which generate substantial technological and management spillovers.[12] Attracting this type of foreign direct investment is facilitated by investment promotion, where information on business opportunities, laws, regulations, and factor costs is more effective than tax incentives and subsidized infrastructure such as energy (Harding and Javorick 2007).
- *A public sector that is supportive rather than dominant*—that delivers basic services efficiently, promotes the rule of law and discourages

[11] Details for GCC economies are discussed in Cherif and Hasanov (2014) and the proceedings of the conference "Economic Development, Diversification, and the Role of the State" in Kuwait City, Kuwait, April 30, 2014 (http://www.imf.org/external/np/seminars/eng/2014/mcd/).

[12] These chains attract other technology-intensive foreign direct investment, and leak new technologies and management methods to local firms, raising their competitiveness (Organisation for Economic Co-operation and Development 2002; United Nations Conference on Trade and Development 2010). Multinationals benefit from improving local suppliers' product quality through technical assistance and training (Blalock and Gertler 2007; Organisation for Economic Co-operation and Development 2002). As local firms become more technologically sophisticated, it becomes easier for them to adopt new technologies. Export buyers promote technology transfer by sharing production techniques (Pack 2008). Highly qualified technical workers, hired by multinationals, facilitate knowledge spillovers into domestic industries (Todo, Zhang, and Zhou 2009).

corruption and fraud, and streamlines business regulations—would raise private sector productivity. Privatization of large state-owned enterprises could improve the quality of energy provision and banking services while reducing the government's contingent liabilities.

- High-quality infrastructure and a competitive business environment also foster technology-intensive foreign direct investment and modern production methods (see next section).

MENAP and CCA economies will also benefit from improving their business environments, financial development, and infrastructure—all essentials for physical capital accumulation (Figure A1.4). Globally, the MENAP and CCA oil importers—where investment constrains potential growth—rank low in these areas,[13] which also pose obstacles for small and medium-sized enterprises across the regions. Key policies for raising investment-to-GDP ratios, and, in turn, physical capital, complementing some policies that also raise productivity (modernizing production and public sector roles, see the previous discussion), include the following:[14]

- Creating a sound *business environment* calls for security, political and policy stability, strong protection of property and investors' rights, and ease in starting a business. Eliminating various forms of corruption, including favoritism in government official decisions, and, in some cases, greater exchange rate flexibility and removal of capital controls, are also important.
- *Financial development* could raise the availability and affordability of financial services that are critical to domestic capital investment, especially for small and medium-sized enterprises. Certain policies, against the backdrop of a sound banking system, can be potent (Annex III).
- *Public infrastructure investment,* through higher quality and coverage, directly affects capital stock. Indirectly, it fosters private capital investment by providing more affordable and reliable inputs (especially for electricity) into production. Its effectiveness depends on the efficiency of public investment (Annex II). Over the longer term, large-scale investment could require foreign financing, especially in the CCA.

MENAP and CCA workforce growth is most affected by labor market efficiency and the work environment (Figure A1.4).[15] The region's labor markets are characterized by rigidities that contribute to stifling formal labor markets and fuel large informal sectors. Additionally, many MENAP and CCA economies lack the economic and political stability that is conducive to normal business operations. Policies to help overcome these obstacles include:

- More *efficient labor markets* can increase worker supply and demand. Greater flexibility in wage-setting and hiring and firing policies (with unemployment benefits and protection against discrimination and arbitrary employer decisions) reduces firms' costs and provides incentives for investment in firm-specific training. Complementary measures are explained in IMF (2014e). Flexibility also encourages worker productivity—it facilitates higher salaries and promotions, reducing incentives for the most talented workers to emigrate.
- A healthy *work environment* that is safe, with reliable public transport infrastructure and economic and political stability, facilitates participation in the workforce.
- Raising *female workforce participation* not only increases the size of the workforce but diversifies it, leading to greater innovation and productivity (*Regional Economic*

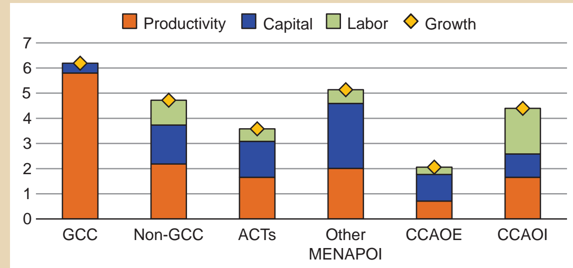
[13] See the latest World Bank Doing Business report (2014a) and World Economic Forum Global Competitiveness Report (2014).

[14] Based on cross-country regressions (sample of 104 countries) of potential capital growth on a broad set of macroeconomic and institutional variables. See Mitra, Hosny, and Minasyan (forthcoming) for details.

[15] Based on cross-country regressions (sample of 95 countries) of potential workforce growth on a broad set of macroeconomic and institutional variables. See Mitra, Hosny, and Minasyan (forthcoming) for details.

Figure A1.5

Medium-Term Growth above Baseline If Underlying Structural Variables Reach Emerging Market and Developing Country Levels[1]



Sources: IMF, World Economic Outlook; and IMF staff calculations.
[1]Potential growth derived if each of the factors underlying potential productivity (e.g., worker talent, modern production methods), capital (e.g., business environment, financial development), and labor (e.g., labor market efficiency, work environment) are increased to average emerging market and developing country levels. For simulation details see Mitra, Hosny, and Minasyan (forthcoming).

Outlook: Middle East and Central Asia, November 2013).

Pursuing these policies could reverse declining MENAP and CCA potential growth and help the region converge toward higher EMDC living standards (Figure A1.5). In the GCC, the business environment and public infrastructure investment levels exceed the EMDC average, but some factors underlying productivity growth still fall short; raising their levels can raise productivity and potential growth. In the rest of MENAP and the CCA, potential growth can be raised by a comprehensive approach to these factors—closing large gaps with EMDCs in productivity, physical capital accumulation, and the workforce (e.g., worker talent, competitive business environment, efficient labor markets).

Annex II. Public Infrastructure Investment in the MENAP and CCA Regions

Infrastructure investment is an important precondition for economic growth. The GCC countries already invest massively in infrastructure, but non-GCC oil exporters and MENA oil importers invest considerably less than is warranted by their income levels. In the CCA, infrastructure investment is broadly consistent with fundamentals. The total identified shortfall in infrastructure investment is about US$72 billion annually. Raising infrastructure investment toward desirable levels could boost growth in the short term by some 3 percentage points among non-GCC oil exporters and about 1½ percentage points among the MENA oil importers. To increase infrastructure investment and its economic impact, policymakers need to improve public investment management and availability of the needed labor skills and finance.

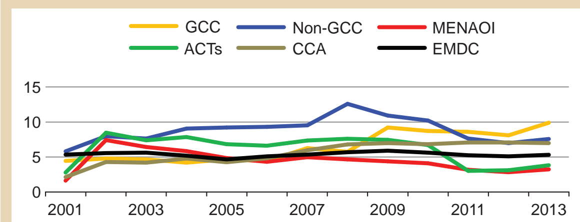
MENA and CCA countries vary greatly in their infrastructure development, investment needs, and ability to meet attendant financing challenges. Most GCC countries have embarked on highly ambitious public infrastructure programs (Figure A2.1) with announced public investment projects that are multiples of annual economic output. In contrast, public investment has dropped sharply in non-GCC oil exporters and MENA oil importers—in some cases to half the peak values it reached during the 2000s. CCA public investment has been moderate but steady.

This annex considers estimates of infrastructure needs in MENA and CCA countries (including any reasons for differences across country groups), financing options, measures to increase public investment efficiency, and possible jobs and growth implications of higher public investment in underinvesting regions.

Figure A2.1

Public Capital Spending

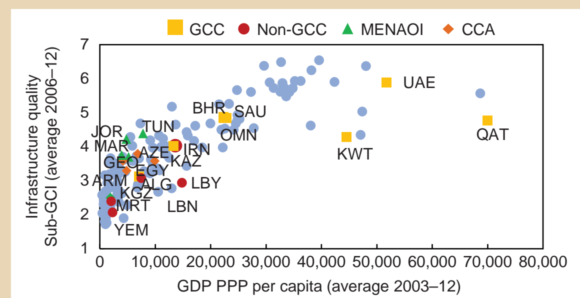
(Percent of GDP)



Source: IMF staff calculations.
Note: EMDC = emerging market and developing countries.

Figure A2.2

Infrastructure Quality and GDP per Capita[1]



Source: Albino-War and others (forthcoming).
[1]Infrastructure quality is measured using the infrastructure component of the Global Competitiveness Index. See Albino-War and others (forthcoming) for details.
Note: GCI = Global Competitiveness Index.

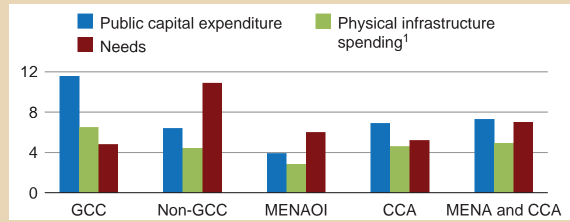
Infrastructure Gaps

Infrastructure development is usually tightly linked to income level (Figure A2.2);[1] however, some countries

Prepared by Haonan Qu, Martin Sommer (team lead), and SeokHyun Yoon, with research assistance by Soledad Feal-Zubimendi and Juan Carlos Flores.

[1] Infrastructure quality in Figure A2.2 is measured using the infrastructure component of the Global Competitiveness Index.

Figure A2.3
Public Investment and Physical Infrastructure Needs, 2014–19
(Percent of GDP)



Sources: IMF, World Economic Outlook database; Ianchovichina and others (2013); the Multilateral Development Bank Working Group on Infrastructure (2011); and IMF staff estimates.
[1]Estimates of infrastructure spending are based on the information from countries' budget laws, when available, and IMF staff assessment. In the absence of estimates for a country, regional averages of infrastructure spending to total public capital spending ratios were computed to obtain total infrastructure spending.

appear to suffer from infrastructure gaps, defined as the deviation of infrastructure capital stock from the level warranted by the stage of economic development and other country characteristics such as the sectoral composition of output.

Planned infrastructure expenditures in the GCC and CCA regions are broadly in line with infrastructure investment needs (Ianchovichina and others 2013). These estimates take into account additional country characteristics such as urbanization, technology, and a broader range of infrastructure subsectors; however, infrastructure investment plans lag behind in the MENA oil importers—including the Arab Countries in Transition—and particularly in the non-GCC oil exporters (Figure A2.3). The investment gap is estimated at 2 percent of GDP for the MENA and CCA countries as a whole, but most of this gap reflects the 6½ percent of GDP gap for non-GCC oil exporters and the 3 percent of GDP gap for MENA oil importers.[2] These infrastructure gaps opened up for a variety of reasons that include limited fiscal space, crowding out of productive investment by high public sector wage bills and generalized subsidies (IMF 2014d), expectations of higher returns from financial assets than from infrastructure investment, and limited absorption capacity.[3] Accumulation of infrastructure gaps can also partly reflect legacies of the global financial crisis as lower-rated countries face persistently tighter external financing conditions and a weak external environment. In some cases, extensive infrastructure damage resulted from military conflicts and protracted periods of underinvestment.

Jobs and Growth Implications of Higher Public Investment

Public infrastructure investment could raise potential growth through capital accumulation and higher productivity. Calculations in this annex assume that policymakers make a temporary increase in public investment in non-GCC oil exporters and MENA oil importers by the amount of the annual infrastructure gap (US$72 billion).[4] The assumed size of investment is within the range of scenarios discussed in the Arab Stabilization Plan White Paper (2012) (US$30–100 billion). Elasticities estimated in the October 2014 *World Economic Outlook* and Ianchovichina and others (2013) imply that the growth and jobs benefits of scaled-up infrastructure investment could be substantial (Figure A2.4); however, given the relatively low investment efficiency in most MENA and

[2] The magnitudes of estimated investment gaps are consistent with the estimates of Ianchovichina and others (2013).

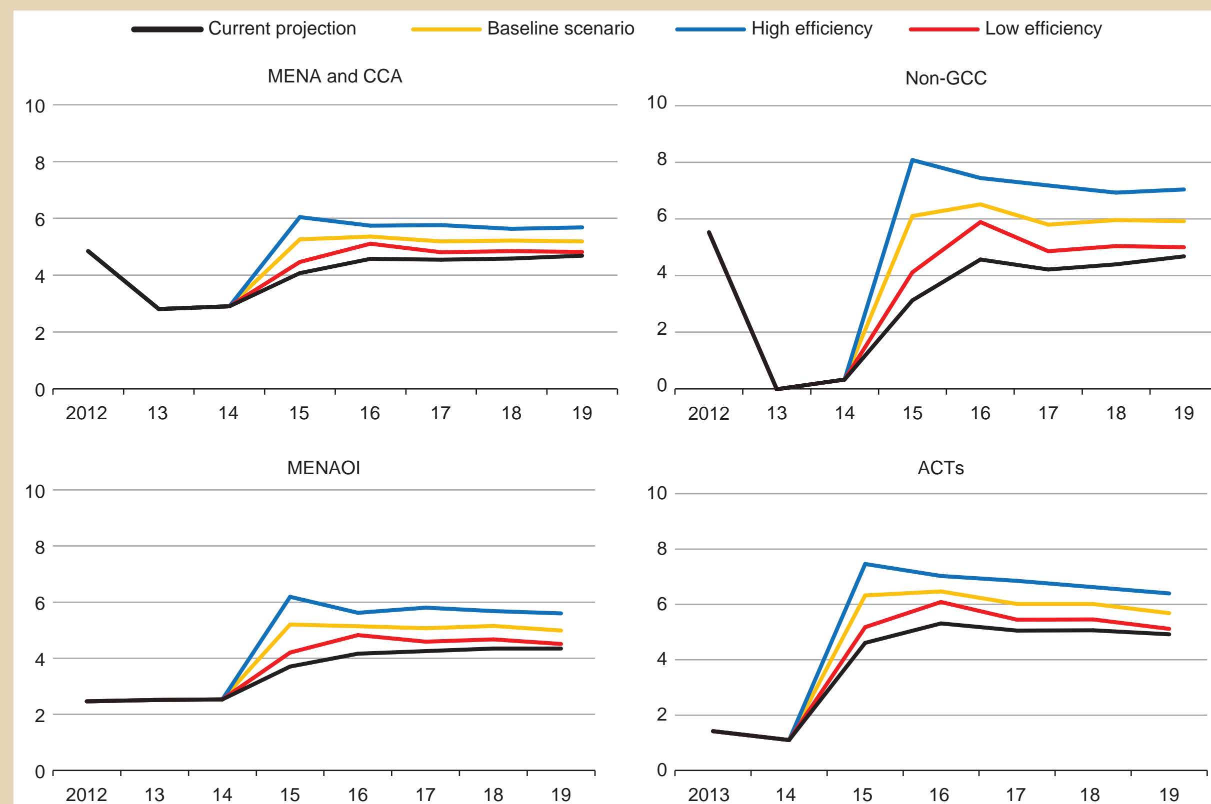
[3] In countries with weak institutional quality, governments may also use capital spending as a vehicle for rent-seeking (Grigoli and Mills 2013; Keefer and Knack 2007), which leads to inefficient spending.

[4] Of this amount, US$57 billion would be for non-GCC oil exporters and US$15 billion for MENA oil importers (i.e., 6½ percent of GDP and 3 percent of GDP, respectively, as noted above). Calculations assume that the GCC and CCA regions do not make any investments beyond those already planned.

Figure A2.4

Impact of Higher Public Investment on Real GDP Growth

(Percent)



Source: IMF staff calculations.

CCA countries and general capacity constraints (including insufficient domestic skilled labor), the short-term macroeconomic benefits could be at the lower end of estimated ranges:

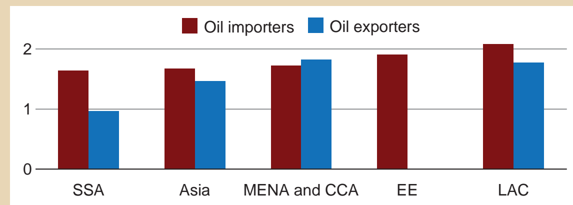
- Non-GCC oil exporters' growth could increase by some 3 percent in the short term, while employment could increase by 2.8 million.
- MENA oil importers' short-term growth dividend could amount to about 1½ percent, with employment increasing by 1.6 million.
- The growth impact for the MENA and CCA region would be about 1¼ percent, and employment could increase by 4.4 million jobs.

Securing these favorable job and growth outcomes will require that public investment be highly efficient and fiscally sustainable. Infrastructure spending could be financed by reallocating spending from unproductive uses, or by securing additional external financing in parallel with domestic structural reforms.

Investment Efficiency

There is substantial scope to improve the efficiency of public investment in the MENA and CCA countries (Albino-War and others forthcoming; Dabla-Norris and others 2012). Greater efficiency would boost the growth dividend while saving financial resources. Albino-War and others (forthcoming) suggest that should MENA and CCA countries raise investment efficiency to the level of the best global performers, the productive infrastructure stock could be boosted significantly without any increase in public spending. Analysis of

Figure A2.5
Public Investment Management Index,[1] by Region



Sources: Dabla-Norris and others (2012); country authorities; and IMF staff estimates.
Note: Compiled from 27 countries from sub-Saharan Africa (SSA), 8 from Asia, 10 from MENA and CCA, 9 from emerging Europe (EE), and 9 from Latin America and the Caribbean (LAC).
[1]An index that captures the institutional environment underpinning public investment management across four different stages: project appraisal, selection, implementation, and evaluation. A higher score reflects better public investment management performance.

public investment management processes reveals that MENA and CCA's related institutional quality outperforms sub-Saharan Africa and emerging Asia, but lags behind Latin America (Figure A2.5).[5] MENA and CCA performance is particularly weak in the appraisal and selection stages of investment projects.

Policy Implications

Job and growth gains from higher public investment can be substantial. Raising public infrastructure investment toward desirable levels could boost short-term growth in non-GCC oil exporters by some 3 percentage points and in MENA oil importers by about 1½ percentage points. However, limited capacity and underdeveloped investment frameworks pose challenges, reducing the macroeconomic benefits. To make the best of potential infrastructure investments, policymakers will need to focus on public investment management reforms, financing access, and labor market policies.

Public Investment Management

Successful country experiences suggest that developing strong institutions is crucial for fostering the efficiency of public investment. In the near term, countries could promote greater scrutiny of public investment projects, while preparing for more fundamental reforms of the public investment management process. Short-term measures would include increasing the transparency of key investment projects over the entire project cycle (for example, appraisal information, competitive procurement process, bidding statistics, cost/time overruns) and the budget process (for example, objectives, costs of projects, ex post evaluations). Over the medium term, countries should align investment projects with strategic country priorities and revamp the framework for managing public investment, including establishing independent checks of project appraisal and project selection.

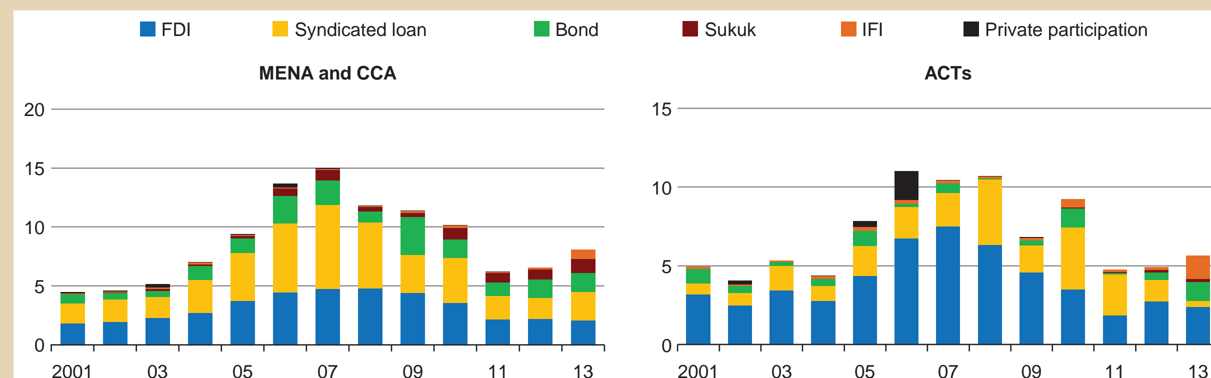
Access to Financing

Financing capacities vary sharply across the region. Hydrocarbon exporters have generally stronger fiscal positions and easier market access than hydrocarbon importers. Sukuks are an increasingly popular financing option, especially in the GCC, but conventional financing through syndicated loans and bond issuances have fallen substantially since the global financial crisis (Figure A2.6). International financial institutions (IFIs) have boosted their lending, which reflects the new Arab Financing Facility for Infrastructure Investment (a joint project between the Islamic Development Bank and its partners), increased engagement by the World Bank, and Deauville Partnership efforts. Public-private partnerships (PPPs) continue to play a marginal role in the region, but initiatives such as the Arab Stabilization Plan aim to mobilize external capital for MENA infrastructure investments.

For countries with limited fiscal space and fewer financing options, the key questions are how much spending can be feasibly reallocated from unproductive uses toward investment and how much is available from external sources on fiscally sustainable terms. Untargeted subsidies and the public sector wage bill are potential areas for streamlining and reallocating spending in a number of countries.

[5] The main aspects of each public investment management system include appraisal, selection, implementation, and evaluation. Public investment management scores for advanced countries are not available.

Figure A2.6
Financing for Infrastructure and Other Investments
(Percent of GDP)



Source: IMF staff calculations.
Note: Includes also financing not directly used for infrastructure spending (e.g., certain FDI, bonds, and loans directed to noninfrastructure investments). FDI = foreign direct investment; IFI = international financial institution.

External financing is often constrained by the challenging political and security environment. Over the long term, policies to develop domestic capital markets and institutions would help secure access to public infrastructure financing. Shorter-term policy options include mobilizing additional public revenue, providing financing support measures to attract more private sector involvement, designing a platform to strengthen IFI financing, and blending concessional and nonconcessional financing (Annex III). For example:

- The World Bank's Multilateral Investment Guarantee Agency credit enhancements for nonhonoring of financial obligations. The nonhonoring of financial obligations, available for up to 15 years, provides capital relief to commercial banks constrained by Basel rules, which could increase commercial banks' lending capacity, allowing them to fund strong projects that are difficult to finance in traditional financial markets.[6]
- Developing a platform to mobilize equity investment or grants from donors would strengthen IFIs' infrastructure financing capability. The Islamic Development Bank's private equity infrastructure fund (IIF) II is a good example. Following the successful implementation of IIF I (US$730 million), IIF II was launched in May 2014. IIF II targets Shariah-compliant investments in infrastructure projects in its member countries. It has already raised US$850 million, aiming for a target size of US$2 billion. This would help mobilize up to US$24 billion of aggregate financing to support the development of key infrastructure projects.
- Donor countries are looking into new approaches that blend concessional and nonconcessional funding to assist low-income countries, given public pressure to reduce official development assistance and constraints on concessional lending by IFIs. These approaches use limited concessional resources to leverage nonconcessional funding, which helps raise the pool of resources for infrastructure development.
- PPPs can be more efficient than traditional public procurement of assets and services, but entail substantial fiscal risks (IMF 2006b). These risks are particularly prevalent when PPPs are implemented by inexperienced

[6] For instance, Tunisia received about US$200 million in assistance from nonhonoring of financial obligations, for a transport project in 2011, which helped mobilize French private investors.

governments, without adequate legal and institutional frameworks, or to bypass budgetary spending controls. Managing fiscal risks from PPPs could be achieved by adopting (1) investment planning systems to select sound projects and procurement options based on economic and efficiency considerations; (2) a legal and institutional framework with the appropriate structures and expertise to handle PPPs; and (3) fiscal accounting and reporting to allow the transparent disclosure and policy analysis of the fiscal implications of PPPs.

Labor Market

Finally, skills mismatches (World Bank 2009b) in domestic labor markets could hinder rollout of approved projects and job creation for citizens, while potentially encouraging the inflow of expatriates. Active labor market policies and structural reforms to address skills mismatches, to improve the skills of those already working, and to increase the number of people with education in technical fields would help increase the jobs and growth dividend of infrastructure investments.

Annex III. Access to Finance for Small and Medium-Sized Enterprises in the MENAP and CCA Regions

The growth of small and medium-sized enterprises (SMEs) is critical to raising and diversifying economic growth and generating employment in the MENAP and CCA regions. However, deficiencies in the legal and financial infrastructure, poor SME financial reporting standards, and banks' lending capacity constraints hamper SMEs' access to finance. Further steps are therefore needed to strengthen legal and financial infrastructure, particularly credit and collateral registries, commercial courts, and bankruptcy regimes. Banks can enhance their capacity to lend by developing customized products tailored to SMEs, as well as by addressing weaknesses in their balance sheets and improving their risk management systems. Islamic finance holds promise for improving SME access to finance in the region, contingent on improvements in legal and financial infrastructure, and on development of appropriate SME products. Improving data on SMEs and funding gaps is critical for designing effective SME policies.

SMEs, Inclusive Growth, and Access to Finance

SMEs have been the engines of economic growth and employment for developed economies; they could also play an important role in generating inclusive growth in MENAP and the CCA, thereby reducing current income inequalities. In most of the member countries of the Organisation for Economic Co-operation and Development, SMEs account for more than 95 percent of enterprises and up to 70 percent of employment (http://www.oecd.org/statistics/). By contrast, while SMEs account for between 80 percent and 95 percent of formal sector enterprises in MENAP and the CCA, they only contribute about 30 percent of GDP and 20–50 percent of private sector employment. The contribution of SMEs to total employment is even lower in the MENAP oil-exporting countries because of the large share of public sector employees.

Limited access to finance for SMEs is one of the main obstacles to their growth in the MENAP and CCA regions. More than 50 percent of firms in the MENAP region do not have access to credit, and a third of firms identify lack of access as a major constraint. Although bank lending is the main source of financing for firms of all sizes, SMEs account for less than 8 percent of total lending, 13 percent for non-GCC countries, and about 2 percent for the GCC. A similar pattern is observable in the CCA, although the magnitudes vary (Figure A3.1).

Factors Constraining SME Access to Finance

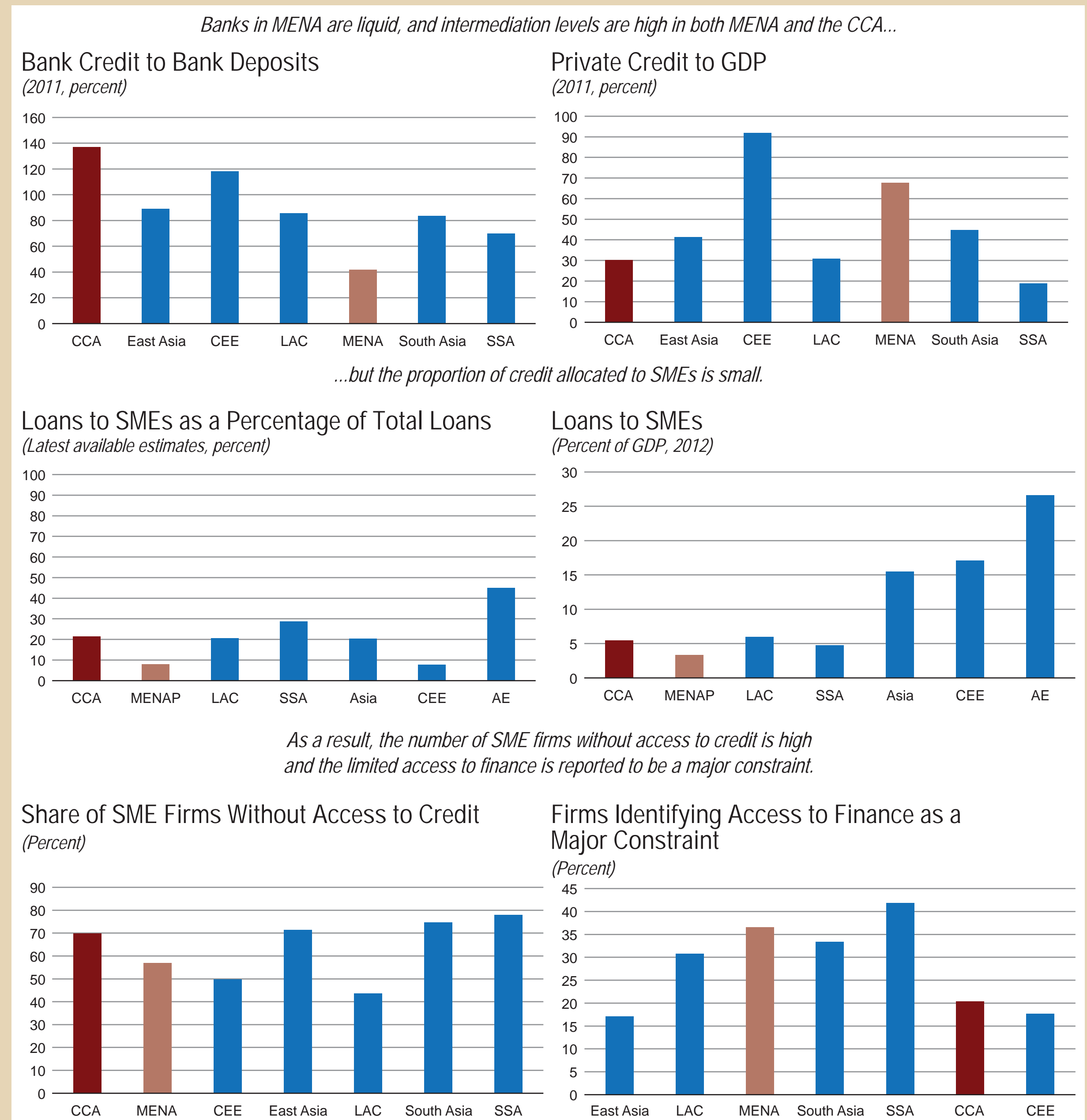
SMEs' limited access to finance reflects the interaction of demand, supply, institutional, regulatory, and other policy factors. The factors are also generic to both regions, except for the government crowding out, which is specific to some MENAP countries. More specifically:

- Apart from obstacles arising from unfavorable investment climates, SMEs face several nonfinancial barriers related to their own capacities, including lack of financial accounts and unavailability of reliable credit histories.
- Banks are reluctant to lend, or they may charge a higher risk premium or demand high collateral requirements from SMEs because of the perceived higher credit risk associated with information asymmetries and lack of collateral to cover this risk. Higher transaction costs discourage banks from lending to SMEs, but banks' lending capacity is also constrained by their lack of customized products and risk management capabilities.

Prepared by Inutu Lukonga (team lead), Sami Ben Naceur, Gregory Hadjian, and Abdullah Al-Hassan.

Figure A3.1

Access to Finance: An Overview



Sources: Asian Development Bank (2013); European Investment Bank (2013); International Finance Corporation, IFC Enterprise Finance Gap database; IMF, Financial Access Survey; Organisation for Economic Co-operation and Development (2013a); World Bank (2010).

Note: AE = advanced economies; CEE = Central and Eastern Europe; LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

- Financing alternatives outside the banking sector are limited. Nonbank financial institutions, such as microfinance institutions, leasing companies, and private equity or venture capital firms, which could also provide capital, are underdeveloped in both regions. Capital markets are developed in selected countries, but in most cases they do not include listings by SMEs which, in some cases, are precluded by stringent listing costs and disclosure requirements.

- Nonperforming loans (NPLs) are high in many countries' banking systems and have the potential to discourage lending in general, particularly to SMEs. Specialized financial institutions that were established to extend credit to SMEs have had only a limited impact, in large part because of governance problems, with many burdened with high NPLs.
- Although banking systems are large, loan concentrations are high, reflecting the focus of banks on large borrowers. A lack of competition in some countries (for example, Algeria) has also contributed to low lending to SMEs, with large public banks specializing largely in lending to large state-owned enterprises and private banks focusing on the most profitable segments of large private businesses and trade finance.
- In addition, large government financing needs crowd out the private sector in a number of MENA countries, particularly the Arab Countries in Transition.

Impact of Global Regulatory Initiatives

Financing of SMEs could face some headwinds from global regulatory initiatives, in the form of reduced availability of funding and increased cost of borrowing. Basel III requires banks to have tighter risk management, higher and better quality equity capital, and improved liquidity, including better matching of funding exposures. The increase in the leverage ratio, owing to the raising of the credit conversion factor for trade finance from 20 percent to 100 percent in Basel III can increase capital and drive up the cost of conducting trade finance. The likelihood that SMEs in MENAP and the CCA will bear the brunt of the adjustment in lending is high: SMEs carry higher risks, and, particularly in these regions, are concentrated in trade and construction. Moreover, the costs of due diligence needed to comply with anti-money laundering/combating the financing of terrorism regulations and the United States' Foreign Account Tax Compliance Act is also leading some international banks to withdraw correspondent relations with banks in the MENAP region and to curtail lending to SMEs in the region.

Recent Reforms

Promoting access to finance for SMEs has been on the global reform agenda since the global financial crisis, and on the national agendas of most MENAP and CCA countries. However, the reforms have had only a moderate impact on improving access to finance, in large part because they have been partial, incomplete, or ineffective. Table A3.1 indicates areas where countries have implemented reforms, and Figure A3.2 compares the progress made by the two regions.

- In the MENAP region, the focus has largely been on strengthening credit information systems that enable lenders to assess borrower creditworthiness and providing subsidized credit and other financial support. Less progress has been made with reforms related to property transfer registration that facilitates collateral-based lending; protecting minority shareholders, which is needed to improve the ability of companies to raise capital; or strengthening the insolvency regime and the efficiency of the judiciary system to help enforce contracts and protect lenders in insolvency. World Bank reports indicate that none of the countries in the region have laws that comply with modern international best practices, and in most countries bankruptcy is criminalized. In addition, while many countries have established credit registries, the coverage of the credit registries is limited in MENAP countries.[1] Subsidized credit,

[1] Figure A3.2 shows the number of economies that have moved up on the legal rights and credit information indexes. The legal rights index measures the protection of the rights of borrowers and lenders through collateral laws and the protection of secured creditors' rights through bankruptcy laws. The credit information index indicates the scope and accessibility of credit information distributed by public credit registries and private credit bureaus.

Table A3.1. Reforms and Institutional Arrangements to Enhance SME Access to Finance

	Legal and Credit Information Infrastructure					Other	
	Registering Property	Credit information	Protecting Investors	Enforcing Contracts	Resolving Insolvency	Credit Guarantee	Financial Support Programs
MENA COUNTRIES							
GCC							
Bahrain	✓	✓					✓
Kuwait		✓			✓		✓
Oman		✓				✓	✓
Qatar		✓		✓			✓
Saudi Arabia	✓	✓	✓		✓	✓	✓
United Arab Emirates	✓	✓	✓				✓
ACT							
Egypt, Arab Republic of		✓		✓			✓
Jordan		✓		✓		✓	✓
Morocco	✓	✓	✓			✓	✓
Tunisia	✓	✓	✓			✓	✓
Yemen, Republic of		✓					
Other MENA Countries							
Algeria		✓		✓			✓
Djibouti	✓				✓		
Iran, Islamic Republic of	✓		✓	✓			
Iraq							✓
Lebanon		✓				✓	✓
Syrian Arab Republic		✓					
West Bank and Gaza	✓	✓		✓		✓	✓
CCA Countries							
Armenia		✓	✓	✓	✓		✓
Azerbaijan	✓	✓	✓	✓			
Georgia	✓	✓	✓	✓	✓		
Kazakhstan	✓	✓	✓	✓	✓	✓	✓
Kyrgyz Republic	✓		✓	✓	✓	✓	✓
Tajikistan	✓	✓	✓		✓		
Turkmenistan	n.a.	n.a.	n.a.	n.a.	n.a.		
Uzbekistan	✓	✓		✓	✓		✓

Sources: World Bank, 2014 Doing Business Survey; and country authorities.
Note: n.a. = data not available; SME = small and medium-sized enterprise.

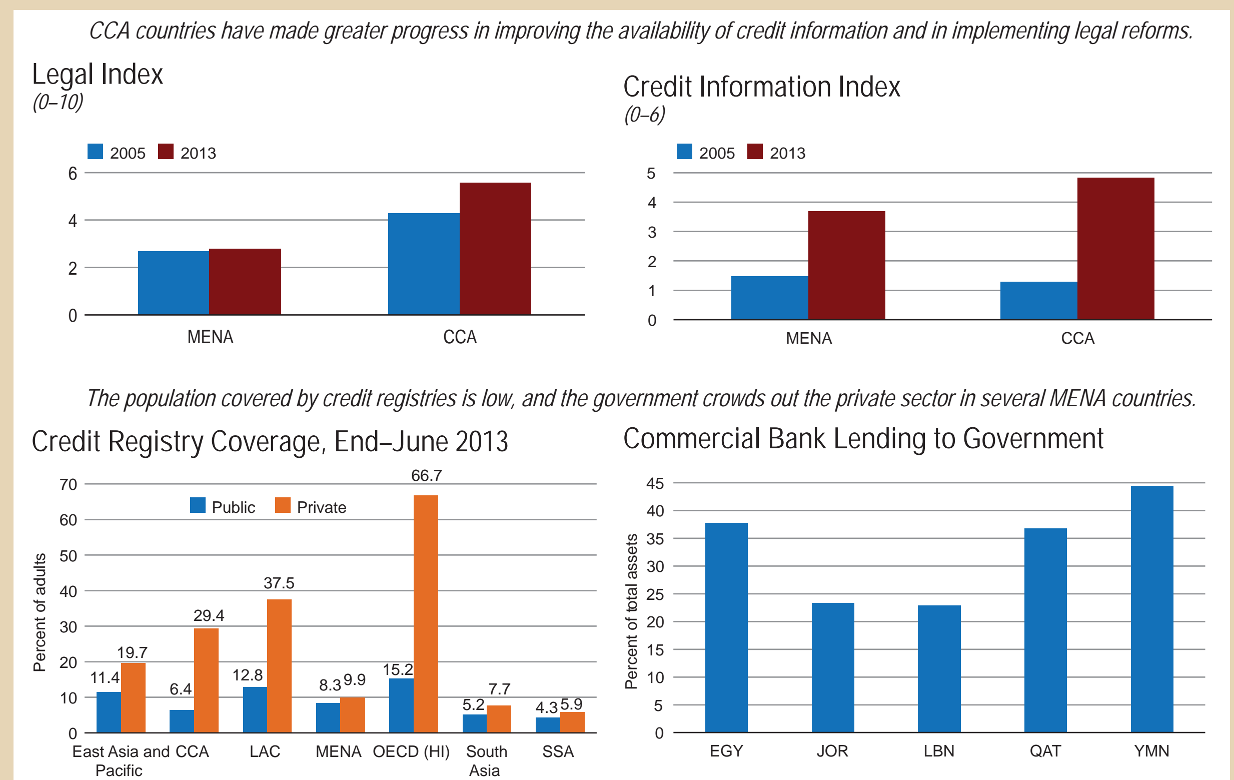
provided through specialized financial institutions, has met with limited success because of weak corporate governance that has resulted in high NPLs. Credit guarantee schemes (CGSs) are reported to have been ineffective.

- The CCA countries, by contrast, have implemented reforms that more comprehensively cover property registration, credit information, protection of investors, enforcing contracts, and insolvency regimes. The coverage of credit registries is also much higher. CGS and financial support programs have been implemented in a few countries. Leasing has expanded more rapidly, driven by foreign European banks and regulatory arbitrage in some cases.

For both regions, the lack of quantitative, up-to-date, and consistently monitored data for the size of the SME segment and the magnitude of SME funding gaps remains an obstacle to a better understanding of the SME sector in the region and to development of appropriate policies. Although enterprise surveys have somewhat improved the availability of data on formal SMEs, important gaps remain in the data needed to evaluate the needs of the sector, to assess progress and thereby provide a basis for a better-informed public discussion, and to help with evaluating the effectiveness of government policies and programs.

Figure A3.2

Indices for Legal Rights and Credit Information



Sources: World Bank Doing Business, 2006 and 2014; and country authorities.

Note: LAC = Latin America and the Caribbean; OECD (HI) = Organisation for Economic Co-operation and Development high-income countries; SSA = sub-Saharan Africa.

Islamic Finance

The Islamic finance industry has attracted the attention of policymakers as a way to expand financial inclusion and tap into excess savings to finance investment. According to the International Finance Corporation (2014), there is a huge demand for Islamic products among SMEs in the MENAP region, where approximately 35 percent of such businesses are excluded from the formal banking sector because of a lack of Shariah-compliant products.[2] The funding shortage is most acute in countries such as Morocco, Pakistan, and Saudi Arabia,[3] where local SMEs are reluctant to consider conventional banking alternatives, In addition, a number of Islamic financial products are suitable for expanding credit to SMEs, especially participatory schemes such as *mudarabah* (profit sharing) and *musyarakah* (joint venture), which allow Islamic banks to lend on a longer-term basis to projects with higher risk-return profiles, and leasing, which circumvents the problem of collateral.

[2] The International Finance Corporation undertook a survey of nine countries including Egypt, Iraq, Jordan, Lebanon, Morocco, Pakistan, Saudi Arabia, Tunisia, and Yemen.

[3] In Saudi Arabia, for example, up to 90 percent of SMEs are reported to be specifically looking for Shariah-compliant banking services, and some Islamic banks in Saudi Arabia are reported to have registered phenomenal growth in their SME loan books. SMEs in Morocco and Jordan also have a strong preference for Islamic banking (54 percent and 45 percent, respectively). In other countries, the ratio ranged between 20 percent and 35 percent.

However, Islamic banks have not capitalized on this latent demand: their assets predominantly consist of debt-like products such as *murabaha*. The potential to significantly narrow the SME funding gap is limited by a number of factors. First, as with conventional banks, credit risk concerns limit the Islamic banks' exposure to SMEs against the backdrop of weak financial infrastructure relating to credit information systems and insolvency regime. In addition, to tap the underlying potential, Islamic banks need to build capacity and develop Shariah-compliant products to cater to SMEs. Second, unlike risk management in conventional banks, risk management in Islamic banks remains comparatively weak, and the regulatory environment in many countries is not yet tailored to Islamic finance. There is also a shortage of expertise in Shariah rules and courts that are conversant with Shariah jurisprudence to adjudicate in commercial cases.

Empirical studies that have assessed the impact of Islamic finance on access also show positive, but limited, evidence of an impact of Islamic banking on financial access. AbuShanab and others (forthcoming) examined the degree to which a greater presence and/or activity of Islamic banks affected financial access and depth. The econometric analysis found a weak correlation between Islamic banking assets and access to finance. These results are consistent with the findings of a 2013 World Bank study (Demirgüç-Kunt, Klapper, and Randall 2013) on financial inclusion, which suggests that increasing the number of Shariah-compliant financial institutions can make a positive difference to the operations of small firms in Muslim-populated countries by reducing barriers to formal services.

Policy Recommendations

The factors constraining access have been well identified, and the challenge for countries has been to create an enabling environment. A comprehensive strategy is needed:

- *Reforms to improve legal and financial infrastructure need to be expedited.* Recent reforms have been uneven and partial, failing to address the lingering deficiencies in the legal and financial infrastructure, particularly the need to improve coverage of credit registries, ensure effective operation of commercial courts, and enact and enforce insolvency regimes. Addressing infrastructure constraints is also critical for increasing the penetration of Islamic financial products.
- *Financial institutions need to develop customized products for SMEs.* Banks' business models need to be better tailored to SME lending and risk management. Public-private partnerships, including partnerships with international financial institutions, can help in this regard, through training and technical support. Islamic finance can help improve SME access to finance in countries where segments of the consumer market do not demand financial products for religious reasons, but for Islamic banks, as for conventional banks, increased credit supply will require an enabling environment.
- *Development of the nonbanking sector could help ease funding constraints.* Development of suitable alternatives to bank finance, particularly leasing and factoring, could also help increase access to finance for SMEs. Alternative listings on capital markets that require less stringent disclosure requirements could also open venues where SMEs could raise long-term capital.
- *Careful use of credit guarantee schemes might help.* Financial infrastructures address constraints related to collateral-based lending, but where collateral is lacking there is also a need to consider introducing CGSs where these are absent, and improving their operations where they already exist. Identification of factors that have rendered CGSs ineffective will be key.
- *Better data collection on SMEs' access to finance is needed.* Data would help policymakers and financial institutions to better understand the needs of the sector and to develop more targeted support measures. Computerized business registries would further facilitate the data-gathering process, and would serve as an important first step for firms joining

the formal sector. Annual business and financial reports can provide important measures over time on the size and trends of the SME sector.

Finally, although financial access is critical for SME growth, its expansion should not be achieved at the cost of financial stability: hence, these reforms need to be accompanied by steps to improve financial supervision. Another supporting policy is fiscal prudence: reducing the crowding-out of the private sector by government borrowing can act as a relevant driver for banks to increase SME lending.

Annex IV. Measuring Inclusiveness in the MENAP and CCA Regions

Poverty rates and income inequality have declined in the MENAP and CCA regions over the past two decades. The size of the middle class has remained significant in both regions but has grown much more slowly in MENAP oil importers than in the CCA and other countries. Access to services, including water, electricity, education, and finance, as well as employment opportunities, are also considerably lower in MENAP oil importers. Some economic groups, such as youth and women, are particularly disadvantaged in this regard. Land-based income distribution remains unequal, especially in the CCA and also in MENAP, where many countries have large rural populations.

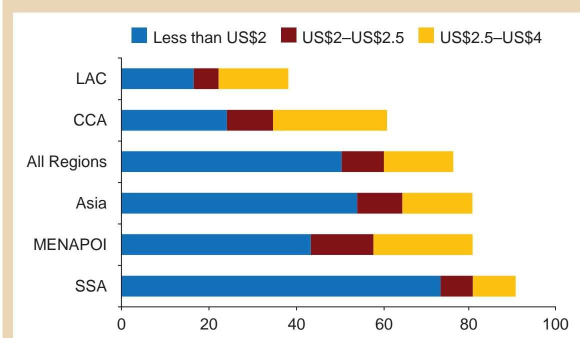
Mixed Performance on Poverty, Inequality, and Middle Class Size

Poverty rates in the MENAP and CCA regions have steadily declined over the past decade and are among the lowest in the developing world. Based on the international poverty line of 2 PPP per day, poverty rates in the CCA and MENAP oil importers declined by 14 percentage points and 9 percentage points between the 1990s and 2000s, to 24.3 percent and 32.8 percent, respectively (Figure A4.1).[1] These rates are well below those in developing Asia and sub-Saharan Africa, but above poverty rates in Latin America. This regional assessment masks heterogeneity across countries; however, poverty rates in MENAP oil importers vary from a low of 10 percent in Tunisia to a high of 64 percent in Pakistan. In Egypt, the poverty rate increased from 16.7 percent in 2000 to 21.6 percent in 2009 and 26.3 percent in 2013. Moreover, many people in MENAP oil importers and the CCA remain at a high risk of falling into poverty, as 14.5 percent and 11 percent of populations, respectively, live on incomes that are just above the international poverty line (between US$2 and US$2.5).

Figure A4.1

Population Living on $4 or Less, 2000–10

(Average, percent)



Source: World Bank, World Development Indicators database.
Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

Indicators of income inequality in MENAP and CCA countries have improved over the past decade. The population-weighted Gini index for the CCA region decreased from 39.3 in 1990s to 35 in the 2000s, while remaining stable in MENAP oil importers at 33 (Table A4.1).

The relative income shares of the top and bottom quintiles are also the lowest in MENAP oil importers and the CCA. These data, however, may suffer from measurement problems (see Alvaredo and Piketty 2014; Verme and others 2014), for example, because upper-income households are underrepresented in the household surveys (see United Nations Development Programme 2011). The land ownership concentration measured by the Gini index points to a more unequal distribution, especially in countries with a large rural population (Figure A4.2). These findings are broadly consistent with a widely held view that high inequality and perceptions of exclusion (see more on this in the

Prepared by Amine Mati (team lead), Davide Furceri, and Younes Zouhar, with research assistance by Brian Hiland and Jonah Rosenthal.

[1] MENAP oil exporters are excluded from many cross-country comparisons because of data scarcity.

Table A4.1. Measures of Inequality

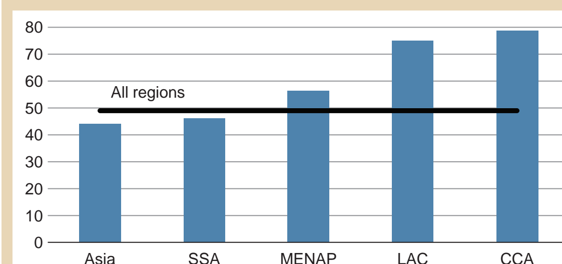
	Gini Index		Relative Income Shares – (P80/P20)	
	1990s	2000s	1990s	2000s
CCA	39.3	34.9	8.8	5.7
Asia	33.8	37.9	5.4	7.2
LAC	53.8	53.6	20.4	19.7
MENAPOI	33.0	32.9	5.1	5.0
SSA	44.8	42.7	10.5	9.6
All Regions	37.6	39.9	7.7	8.7

Note: The relative income shares are calculated as a ratio of the income share of the top quintile to that of the bottom quintile. Population-weighted averages. LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

Figure A4.2

Land Gini Index

(Weighted average)



Source: United Nations Food and Agriculture Organization.
Note: Regional averages based on one observation per country, obtained between 1996 and 2006. LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

Table A4.2. Size of the Middle Class Using Alternative Definitions

(Percent of population)[1]

	Ravallion (2009)[2]	Asian Development Bank[3]	African Development Bank “Lower Middle”[4]	African Development Bank “Upper Middle”[5]	Ferreira and Others (2001)[6]	Birdsall, Graham, and Pettinato (2000)[7]
1990s						
CCA	59.6	61.3	24.6	3.8	4.1	31.2
Asia	21.9	22.2	4.3	0.5	0.6	35.7
LAC	65.3	71.6	33.8	12.1	17.4	22.4
MENAPOI	39.4	40.2	12.4	1.8	2.2	41.6
SSA	22.2	22.8	6.3	1.2	1.7	26.9
All Regions	29.0	30.1	9.0	2.1	2.9	33.3
2000s						
CCA	83.2	86.3	44.7	7.5	8.7	36.4
Asia	51.5	53.4	20.0	4.2	5.2	31.2
LAC	67.9	78.4	39.2	20.0	28.6	22.6
MENAPOI	59.1	60.2	18.2	2.6	3.1	40.8
SSA	30.3	31.1	8.2	1.6	2.4	28.9
All Regions	51.9	54.6	21.1	5.6	7.4	30.6

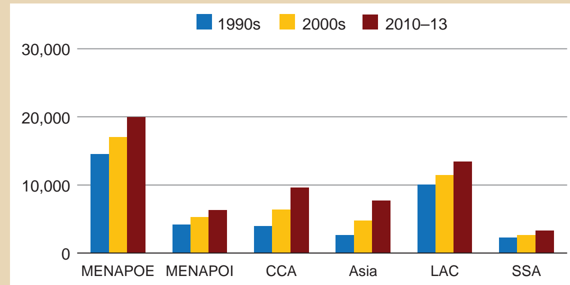
Source: IMF staff calculations based on World Bank Poverty database.
Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.
[1] Regional averages weighted by population.
[2] Daily income between US$2 and US$13 in 2005 PPP$.
[3] Daily income between US$2 and US$20 in 2005 PPP$.
[4] Daily income between US$4 and US$10 in 2005 PPP$.
[5] Daily income between US$10 and US$20 in 2005 PPP$.
[6] Daily income between US$10 and US$50 in 2005 PPP$.
[7] Income between 75 percent and 125 percent of the national median.

next section) were a key cause of the social turmoil in the Arab Countries in Transition.

The middle class has remained significant in MENAP oil importers and the CCA, despite a slower expansion during the past decade in MENAP oil importers than in the CCA and other regions of the world. There is no strong evidence that the middle class has been “hollowing out” over the years in MENAP oil importers and the CCA. By most common measures,[2] the middle class in the CCA, and to a lesser extent in MENAP oil importers, comprises the largest proportion of the population (Table A4.2). However, the middle class in MENAP oil importers has been growing at a slower rate

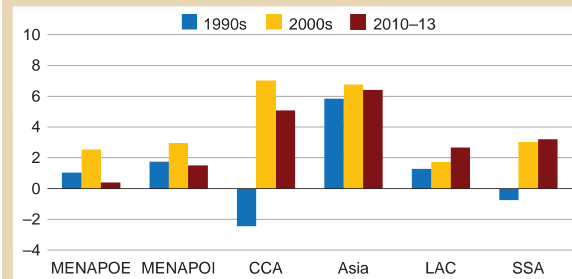
[2] See Abu-Ismail and Sarangi (2013) for a brief overview of alternative measures of the size of the middle class.

Figure A4.3
GDP per Capita
(PPP, Constant 2011 International Dollars)
(Average)



Source: World Bank, World Development Indicators database.
Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

Figure A4.4
GDP Per Capita Growth
(PPP, Constant 2011 International Dollars)
(Percentage change)



Source: World Bank, World Development Indicators database.
Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

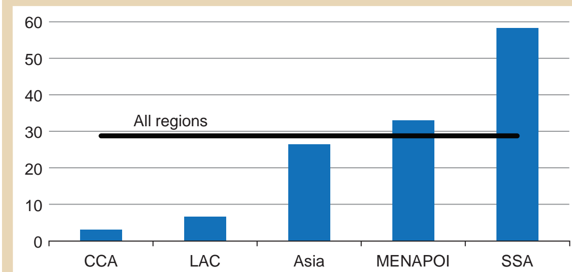
than that in the CCA and developing Asia. The upper middle-income class has remained small in MENAP oil importers while expanding significantly in other regions.

Low Growth and Access to Services in MENAP Oil Importers

Lackluster growth in MENAP oil importers hurts inclusiveness by hampering social development, poverty reduction, and improvement in living standards. Despite increasing by about 50 percent between the 1990s and 2010s, GDP per capita (based on 2011 PPP) in MENAP oil importers has been well below levels observed in other regions, except sub-Saharan Africa (Figures A4.3 and A4.4). This underperformance reflects both low economic growth and rapid population growth. By comparison, during the same period, GDP per capita more than doubled in the CCA, allowing this region to catch up with Latin America. While GDP per capita is the highest in MENAP oil exporters, its growth rate is the lowest, in part reflecting these economies' dependence on oil and gas.

Access to services such as water and electricity is low in MENAP oil importers, and the region lags behind its peers in educational attainment and access to finance. The share of the population deprived of access to education and health and experiencing low standards of living—also known as

Figure A4.5
Population Living in Multidimensional Poverty
(2013; percent)

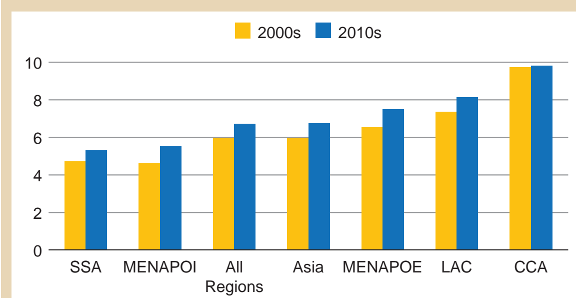


Source: United Nations Development Programme, Multidimensional Poverty Index.
Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

"multidimensional poverty"[3]—stayed at 33 percent in MENAP oil importers during 2000–10, among the highest in the world, and well above the levels observed in the CCA (3.1 percent), Latin America (8.3 percent), MENAP oil exporters (23.5 percent), and developing Asia (26.7 percent) (Figure A4.5). MENAP oil importers are also performing poorly in educational attainment; despite some progress, average years of schooling stand at 5.5 years, only slightly better than in sub-Saharan Africa and much worse than in other regions of the world (Figure A4.6). Low access to bank services, with the number of bank branches per 100,000

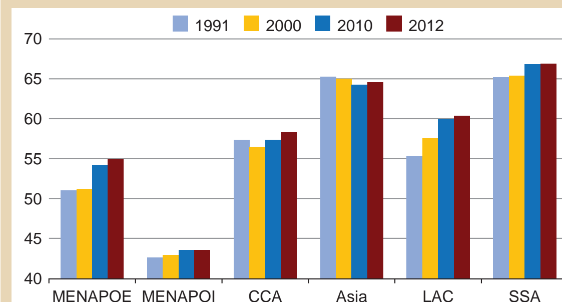
[3] The "multidimensional poverty" index uses 10 indicators to measure the degree of deprivation with respect to three key welfare dimensions: education, health, and living standards. That latter measure includes access to cooking fuel, toilets, water, electricity, and assets.

Figure A4.6
Educational Attainment
(Average years of schooling for population age 15+)



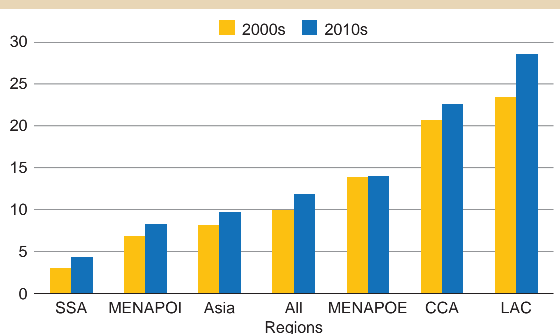
Source: Barro-Lee dataset.
Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

Figure A4.8
Employment-to-Population Ratio
(Regional average for corresponding years using available data)



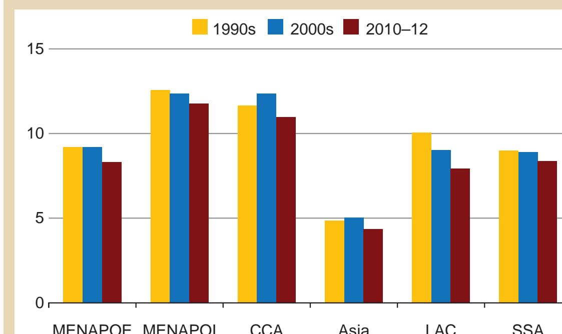
Source: International Labour Organization, Key Indicators of the Labor Market.
Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

Figure A4.7
Access to Bank Services
(Number of commercial bank branches per 100,000 adults)



Source: World Bank, World Development Indicators database.
Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

Figure A4.9
Unemployment Rate
(Decade averages, percent)



Source: International Labour Organization, Key Indicators of the Labor Market.
Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

adults averaging less than a third of that in Latin America, continues to hamper social and economic development in MENAP oil importers (Figure A4.7).

Lack of Employment Is a Key Inclusiveness Problem

The MENAP and CCA regions have some of the lowest employment-to-population ratios in the world. In MENAP oil importers, in particular, employment rates hover at about 43 percent at present. This compares poorly with other developing regions, where similar ratios range between 60 percent (Latin America) and 67 percent (sub-Saharan Africa) (Figure A4.8). There is, however, considerable variation within both the CCA and MENAP regions. In the CCA, employment-to-population ratios range from 54 percent in Turkmenistan to 68 percent in Kazakhstan, whereas in the MENAP they range from 32 percent in Jordan to 86 percent in Qatar. In addition, more than one-third of those employed in MENAP oil importers are "vulnerable" (either self-employed or working as contributing family workers) (Hakimian and others forthcoming), contrasting with the almost negligible share of "vulnerable" employed in MENAP oil-exporting countries such as Kuwait, Qatar, and the United Arab Emirates.

High unemployment rates, particularly among the youth, mirror low employment rates. In MENAP oil importers and the CCA, unemployment rates have been consistently in double digits during the past 20 years, and they continue to exceed the rates for other developing regions (Figure A4.9). For the youth, they are

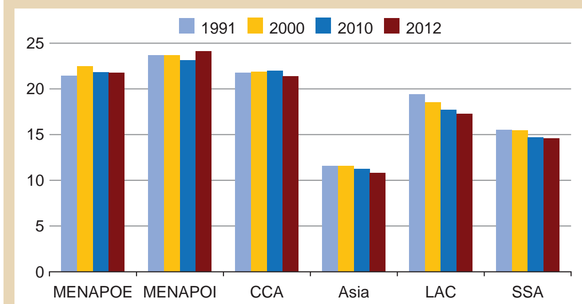
particularly high, persistently exceeding 20 percent in MENAP and the CCA—well above the rate in other regions such as developing Asia (10 percent) and sub-Saharan Africa (15 percent) (Figure A4.10). These statistics have not improved significantly in recent years, in part because the recovery has been weak. Youth unemployment rates are highest in Mauritania (45 percent) and above 30 percent in many MENAP and CCA countries, particularly Armenia, Egypt, Georgia, Iraq, Jordan, and Yemen.

The previous evidence suggests that labor market performance in the MENAP and CCA regions—particularly in MENAP oil importers—remains weaker than in other regions of the world. These economies have not been able to translate economic growth into employment opportunities. This conclusion is corroborated by evidence on the employment-output elasticities (that is, the net new job creation for each percentage point change in GDP). In particular, the evidence presented in Crivelli, Furceri, and Toujas-Bernaté (2012) suggests that the employment intensity of growth in MENAP oil importers has been among the lowest in the world (0.1)—only a notch higher than in sub-Saharan Africa.

Figure A4.10

Youth Unemployment Rate

(Regional average, percent)

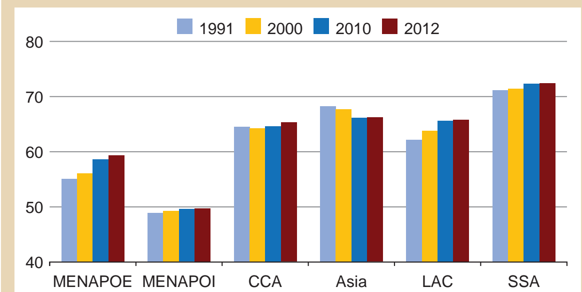


Source: International Labour Organization, Key Indicators of the Labor Market.
Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

Figure A4.11

Labor Force Participation Rate

(Regional average for corresponding years, percent)



Source: International Labour Organization, Key Indicators of the Labor Market.
Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

Acute Gender Inequality in MENAP

Labor force participation rates in MENAP are among the lowest in the world (Figure A4.11).[4] Within the region, there is significant heterogeneity. Labor force participation rates in MENAP oil exporters have been rising and currently stand at the levels of other developing regions (about 60 percent). In MENAP oil importers, they have remained stable at about 50 percent. By contrast, participation rates in the CCA have been in line with those of developing Asia and Latin America.

The low labor force participation rates in MENAP mainly reflect very low female labor force participation rates—the lowest among developing regions. In particular, the female-to-male labor participation rate in MENAP, even though it has been improving over the past two decades, is only about 27 percent compared to more than 65 percent in other regions (Figure A4.12). Extremely low female-to-male labor participation rates are recorded for Afghanistan and Syria (less than 20 percent), followed by Algeria, Iran, Iraq, Jordan, and Saudi Arabia (all below 35 percent).

Gender disparities are also evident in women's access to health, education, and economic opportunities more broadly. These different aspects of gender disparities are summarized in the World Economic Forum's Gender Gap Index (see Figure A4.13).[5] Two striking features emerge:

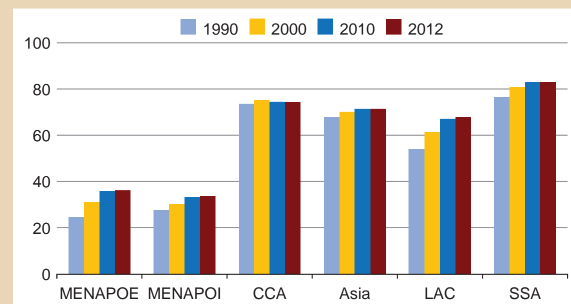
[4] For more detailed analysis of female labor force participation in MENAP, see Box 1.3, in the November 2013 *Regional Economic Outlook*.

[5] See the World Economic Forum's Global Gender Gap Report (2013) for details on the construction of the index.

Figure A4.12

Female-to-Male Labor Force Participation

(Number of females participating per 100 males)

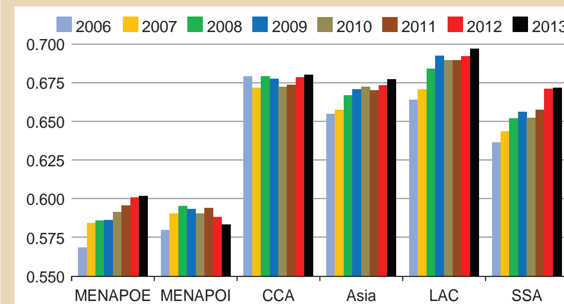


Source: International Labour Organization, Key Indicators of the Labor Market.
Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

Figure A4.13

Global Gender Gap Index, 2006–13

(Average)



Source: World Economic Forum, Global Gender Gap Report (2013).
Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

- Gaps in the MENAP regions are among the widest in the world—the index score is well below that of other developing regions, including the CCA.[6]
- Gaps for MENAP oil importers have widened in recent years. There is, however, important heterogeneity within the region: (1) gaps are particularly wide in Pakistan, Syria, and Yemen, whereas in Jordan and Lebanon they are not significantly different from those of other regions; and (2) gaps have widened in Syria over the past decade, and improved markedly in some countries (for example, Egypt).

Regional inequality in access to basic services is also present in the MENAP region. One important aspect of inclusiveness is how access to basic services (water and sanitation) is shared across regions in a given country:

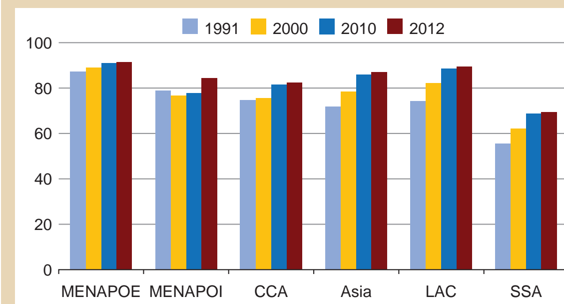
- **The rural-to-urban ratio for access to improved water sources** is, on average, similar in the MENAP and CCA regions to that in most other developing regions, and is significantly better than in sub-Saharan Africa (Figure A4.14). However, these broad trends mask important differences across countries, particularly in the MENAP oil-importers group, where the ratio of rural-to-urban populations with access to improved water sources ranges from less than 62 percent in Afghanistan to 100 percent in Lebanon.

[6] A lower score on the index indicates larger gender gaps.

Figure A4.14

Rural-to-Urban Access to Improved Water Source

(Number of rural persons with access for every 100 urban persons with access)



Source: World Bank, World Development Indicators database.
Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

- **The rural-to-urban ratio for access to improved sanitation facilities** is among the lowest in the world for MENAP oil importers, and is higher only than that in sub-Saharan Africa (Figure A4.15). This contrasts with the experience of MENAP oil exporters and the CCA, where significant improvements have been made over the past two decades and the rural-to-urban ratio of access to improved sanitation facilities is now among the highest in developing regions.

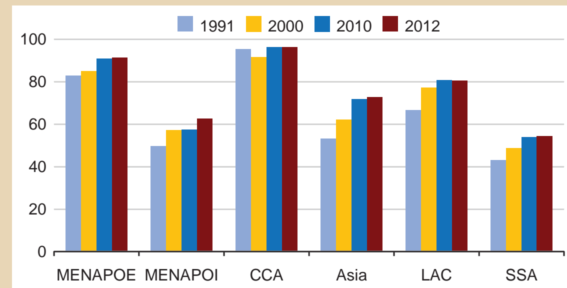
Toward Better Outcomes

Although the diagnostic shows many encouraging outcomes, there is a clear need for policies to address areas in which inclusiveness

Figure A4.15

Rural-to-Urban Access to Improved Sanitation

(Number of rural persons with access for every 100 urban persons with access)



Source: World Bank, World Development Indicators database.
Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

can be improved. Poverty rates have been falling and income inequality has declined, but high unemployment and low labor force participation remain areas of concern in many countries. In addition, access to services such as electricity, water, education, and finance is lagging. Some groups, such as women, youth, and rural populations, remain particularly disadvantaged.

Raising economic growth would strengthen employment prospects. Higher rates of sustained economic growth would generate more jobs and provide incentives to enter the labor force, including for women and youth. Policies to strengthen growth will vary among countries but would often include creating fiscal space to increase priority spending (health, education, infrastructure), and policies to increase trade integration, improve the business climate, and reform labor markets.[7]

Special emphasis is needed to promote wider access to services. A strengthened focus on the quantity and efficiency of public investment is needed to address major gaps in the provision of electricity, water, and education (Annex II). Access to finance can be improved by expediting reforms of legal and financial infrastructures, developing customized products for small and medium-sized enterprises, expanding the nonbank financial sector, and providing carefully designed credit guarantee schemes (Annex III).

Countries need to give particular attention to excluded groups. For instance, female labor participation can be encouraged by improving access to, and quality of, education for girls, legislative reform to ensure equal opportunity in employment, ensuring equal pay for equal work, and providing adequate parental leave and affordable childcare facilities (see Box 1.3 in the November 2013 *Regional Economic Outlook*). Policies to ease youth unemployment can include targeted active labor market policies, including training and counseling for labor market entry and internship schemes to smooth the transition from school to work. Where gaps between rural and urban populations regarding access to services are wide, public investment can be targeted to disadvantaged regions.

[7] For a detailed discussion of policy issues, see Annexes I, II, and V; IMF 2014b, 2014e.

Annex V. Economic Cooperation and Integration in the CCA

Economic cooperation and integration, within the CCA and with other regions, can help CCA countries leverage their comparative advantages, gain access to larger and faster growing markets, and reduce high trade costs. However, bilateral or narrowly focused initiatives risk diverting trade and weakening economic prospects of the region. CCA countries would benefit from liberalizing their restrictive trade regimes on a multilateral basis within the World Trade Organization (WTO) framework, while continuing to foster regional economic cooperation and integration. As CCA countries open up to trade, they may need to adjust their macroeconomic policies to make their economies less vulnerable to external shocks.

Rationale for Economic Cooperation and Integration in the CCA

Economic cooperation and integration can promote growth. CCA countries share many economic challenges: being landlocked, difficult terrain, underdeveloped infrastructure, and a legacy of extensive public sector involvement in their economies. However, there is also considerable diversity in economic size, development levels, energy and water endowments, and economic policy regimes. Diversity and heterogeneity across the CCA can be a source of dynamism for economic cooperation and integration.

Greater economic cooperation and integration have several potential benefits:

- **Lower trade barriers, by developing economic corridors and improving transport connectivity to reduce transportation and cross-border costs** would likely increase trade and expand product diversity, and encourage liberalization of markets for services.
- **Greater diversification and larger markets** would increase domestic competition, facilitate innovation, and contribute to building cross-border production chains. These, in turn, would increase exports outside the region and enhance job opportunities.
- **Strengthened financial linkages** would provide better opportunities for consumption smoothing (trade finance), efficient capital allocation (foreign direct investment), and reliable financial services (international payments).
- **Resolution of regional issues such as labor migration and water access.** With a substantial number of migrants from the CCA region seeking employment in the better-off economies, both within (Kazakhstan) and outside the CCA (Russia), economic cooperation and integration could contribute to the reduction or removal of informal and institutional barriers to labor migration. Regional approaches to the water-energy nexus could also bring major benefits, reducing the potential for conflict through more efficient management and more reliable availability of these scarce resources.
- **Greater unification of standards and locking-in of structural reforms.** Economic and social benefits from economic cooperation could reinforce economic reforms and political commitment to anticorruption and good governance. This would, in turn, help generate the political momentum for further domestic reforms. Friendly competition and benchmarking among CCA countries would provide a further impetus.

Prepared by SeokHyun Yoon, with research assistance by Soledad Feal-Zubimendi.

Status of Economic Cooperation and Integration in the CCA

In many respects, the CCA economies recognize that multilateralism formalized by WTO membership provides a strong framework for developing international economic relations. CCA countries have pursued accession to the WTO to gain better access to markets in developed countries, though progress has been slow. Armenia, Georgia, the Kyrgyz Republic, and Tajikistan are members of the WTO, and Kazakhstan's accession is expected soon. Azerbaijan's accession is advancing, while the accession processes of Turkmenistan and Uzbekistan are at an earlier stage.

Other efforts have been made to improve regional links, with signs that regional cooperation gained a new impetus in recent years.

- *Eurasian Economic Union (EEU)*. Comprised of Belarus, Kazakhstan, and Russia, the EEU will become effective in January 2015, building on the Eurasian Economic Community established in 2000 and the Eurasian Customs Union (ECU) formed in 2010. Armenia and the Kyrgyz Republic are expected to join in the near future. The EEU envisages the free movement of goods, services, capital, and labor among the member countries. The initiatives followed earlier efforts: the Eurasian Development Bank was established in 2006 to finance the development of regional resources and infrastructure, and the Anti-Crisis Fund was formed in 2008 to support efforts by countries in the region to address the fallout from the global financial crisis.
- *Central Asia Regional Economic Cooperation (CAREC)*. Emerging from a regional initiative in 1997, the current membership consists of Afghanistan, Azerbaijan, China, Kazakhstan, the Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan. Focused on the development of regional trade, transport, and energy corridors, CAREC aims at promoting and facilitating regional cooperation. The participation of multilateral institutions, such as the Asian Development Bank, is a unique aspect of CAREC, allowing cooperation and coordination not only among the member countries but also among key international financial institutions involved in the region.
- *Shanghai Cooperation Organization (SCO)*. This organization was established in 2001 by China, Kazakhstan, the Kyrgyz Republic, Russia, Tajikistan, and Uzbekistan. Although principally focusing on regional security concerns, the SCO added regional economic development and cooperation to its goals in 2003.

Advancement of economic cooperation and integration under existing international agreements, however, faces a number of challenges.

- EEU: Early evidence suggests that many challenges prevent member countries from reaping the full benefits of the customs union and enhanced economic integration, because of asymmetry in the economic size of the member states and high common external tariffs (CETs). Kazakhstan's GDP is about one-tenth of Russia's, and Belarus' GDP is one-third of Kazakhstan's. The significantly higher ECU CETs (the simple weighted average of 9.2 percent) could lead to a significant increase in the tariffs of prospective member countries, leading to trade diversion.[1]
- CAREC: Despite some progress in physical infrastructure in the areas of regional connectivity and access to energy and water, progress has been slow in the areas of improving legal and regulatory aspects of trade, transport, and energy sector management. Moreover, links between the regional CAREC and national sector strategies have been weak.

[1] Trade-weighted average tariffs at end-2011 were 3.6 percent for Armenia, 6.4 percent for Azerbaijan, and 3.8 percent for the Kyrgyz Republic. Data are not available for Tajikistan, Turkmenistan, and Uzbekistan.

- SCO: This organization deals primarily with regional security issues, while issues of economic integration receive less attention, a reflection of differing views and interests on key issues of regional oil and gas transit. The SCO's decision-making rule is based on principles of consensus and noninterference, which has its limitations in resolving conflicts among members, such as border crossing and regional water management issues.

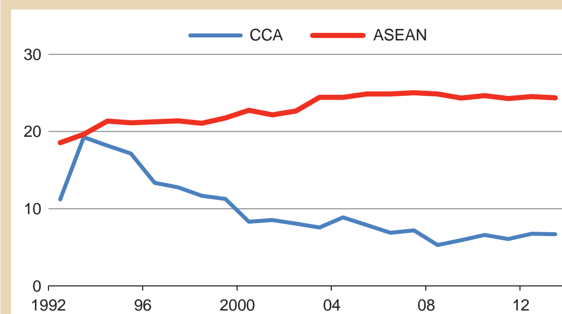
In practice, gains from increased market size through economic integration are yet to fully materialize. Although the CCA has made significant progress in integrating with the rest of the world, intraregional trade has yet to catch up. The share of intraregional trade in the CCA relative to the region's overall global trade dropped significantly over the past two decades and did not keep pace with rapid economic growth in the region (Figures A5.1 and A5.2). Lower intraregional trade in the CCA contrasts with that of the rising numbers among the Association of Southeast Asian Nations (ASEAN) countries. CCA economies benefit from trade with two major trading partners, China and Russia (and for some CCA countries, the European Union), more than from trade within the CCA (Figure A5.3).

The CCA's trade with China has grown rapidly in recent years. China has become the main trading partner of the CCA countries, overtaking Russia and the European Union. China's economic growth and rising energy needs explain the expansion of Chinese engagement with the CCA countries, whose trade with China increased over the past decade, mainly reflecting increased exports of oil and gas, agricultural products, and raw materials from the CCA to China and increased CCA imports of manufactured, mostly consumer goods. Nevertheless, Russia remains an important destination for some goods, such as garments and spirits, from the CCA's job-creating manufacturing industries and a source of manufactured imports for the CCA (Table A5.1).

Figure A5.1

Intraregional Trade

(Percent of total trade)

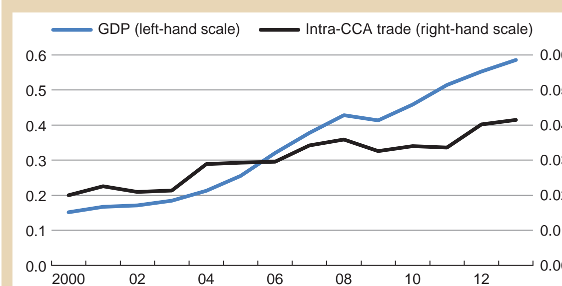


Sources: IMF, Direction of Trade Statistics database; and IMF staff calculations.
Note: ASEAN = Association of Southeast Asian Nations.

Figure A5.2

CCA's Share in the Global Economy

(Percent)

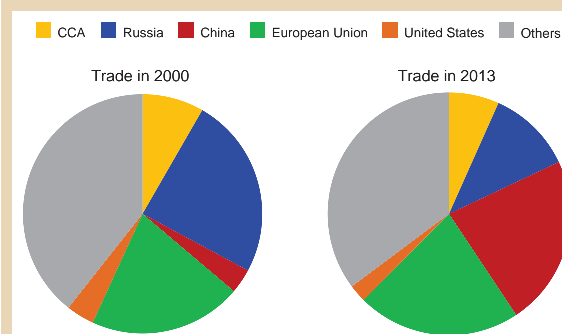


Sources: IMF, World Economic Outlook database; and IMF staff estimates.

Figure A5.3

CCA: Trade Composition Change Between 2000 and 2013

(Percent of total)



Source: IMF, Direction of Trade Statistics database.

Table A5.1. CCA: Trade Shift from Russia to China

(Percent of CCA GDP)

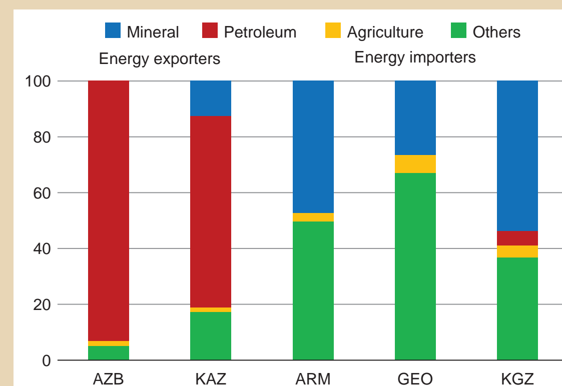
	2000	2012
Oil and Gas Exports to China	0.3	2.6
Oil and Gas Exports to Russia	4.6	0.2
Agricultural and Raw Material Exports to China	0.8	3.3
Agricultural and Raw Material Exports to Russia	4.7	0.8
Manufactured Goods Imports from China	1.3	6.2
Manufactured Goods Imports from Russia	14.5	8.5
Manufactured Goods Exports to China	2.7	3.3
Manufactured Goods Exports to Russia	5.5	3.0

Sources: Comtrade database; and IMF staff calculations.

Figure A5.4

Selected CCA: Export Composition

(Percent)



Source: United Nations Comtrade database.

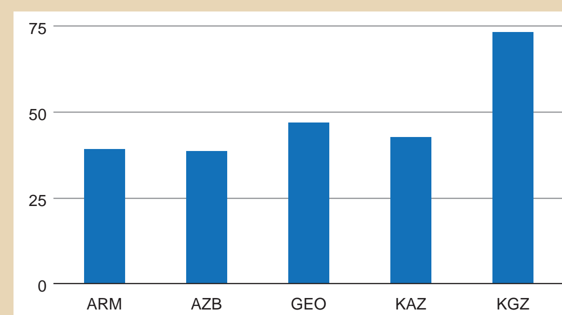
Several Factors Explain the Slow Pace of Regional Integration

- **CCA economies have similar product structures.** CCA countries in each subgroup export roughly the same set of goods, and most of these goods are either commodities or minerals. Exports are also concentrated on a few destinations (Figures A5.4 and A5.5). By contrast, in the ASEAN region, intermediate goods account for as much as 40 percent of intra-ASEAN trade, with a high degree of product chain dependence on Japan and China.
- **Intraregional trade costs remain high.** Most CCA countries face difficult geographic and climate barriers, leading to high cost of transportation and communication, as well as extended transit and delivery times, including time waiting at borders. In addition, limited and poor physical infrastructure adds to the cost of trade (Table A5.2).
- **Progress in removing cross-border obstacles has been slow.** The 2014 World Bank Doing Business Indicators rank most CCA countries, with the exception of Georgia, near the bottom on indicators of barriers to cross-border trade.[2] This ranking reflects cumbersome procedures and red tape in the processing of import and export documents.

Figure A5.5

Selected CCA: Export Share to Top Three Trading Partners[1]

(Percent of total exports)



Source: United Nations Comtrade database.
[1]Top three trading partners vary across countries.

Table A5.2. Intraregional Trade Costs

(Tariff-equivalent trade costs in 2007)

CCA	SAARC	ASEAN	East Asia	NAFTA	EU5
162%	150%	61%	128%	62%	72%

Source: UNESCAP, *Intra-regional Trade Costs in Asia,* 2010.
Note: CCA (for this table: Armenia, Azerbaijan, Georgia, Kazakhstan, and the Kyrgyz Republic); SAARC (Bangladesh, India, Pakistan, and Sri Lanka); ASEAN (Indonesia, Malaysia, Philippines, and Thailand); East Asia (China, Japan, Korea, and Mongolia); EU5 (France, Germany, Italy, Spain, and the United Kingdom).

Other institutional factors also hamper economic cooperation. Tensions among CCA countries, including disputes over territory (Nagorno-Karabakh) or water and energy resources (Tajikistan and Uzbekistan) have hampered

[2] Armenia was ranked 117th, Azerbaijan 168th, Georgia 43rd, Kazakhstan 186th, the Kyrgyz Republic 182nd, Tajikistan 188th, and Uzbekistan 189th out of 189 countries.

economic cooperation in the past and may be difficult to overcome in the future. Also, challenges in the areas of accountability and corruption have made it difficult to create enabling business environments.

Prospects

The success of economic integration in the CCA will depend on how cooperatively all key trading partners can be involved: China, the European Union, and Russia. Prospects for broader integration and the CCA's emergence as a "land bridge" on the Eurasian continent will depend on collaboration not only among the CCA countries, but also among the region's important neighbors. So far these have tended to pursue "exclusive" cooperation initiatives with the region. Russia has recently set up a development fund of US$1 billion for the Kyrgyz Republic as part of plans for the latter to join the EEU. Large-scale Russian financial support for energy and other infrastructure projects was also discussed when Armenia decided to join the ECU in 2013. China has also expanded economic agreements with many CCA countries for investment, especially in the energy sector. Concerns about cross-border issues and potential ethnic and religious discord are also key for China.

Advancing economic cooperation and integration will not be easy, given the multilayered complexity of the process. The EEU is a good example: although the treaty has been signed, various details, particularly those related to free capital and labor mobility and equal educational opportunity, still need to be agreed on. Bilateral agreements on "exclusions," that is, traded goods excluded from the ECU CETs and phasing-out, remain unclear and unpredictable. Another concern is the lack of clarity on the extent of harmonization, or on a timetable for steps in other policy areas (tax policy, financial regulation). Free labor mobility will be hard to achieve in the short term because of significant income gaps among CCA countries and restrictive migration policies. On CAREC, further tangible progress hinges on developing stronger country ownership and mainstreaming CAREC into the national development agenda.

Policy Implications

CCA countries should move toward liberalizing their restrictive trade regimes on a multilateral basis within the WTO framework. Accession to the WTO by more CCA countries would provide a common framework for formal trade policies, as well as access to a powerful multilateral dispute resolution mechanism. WTO accession could bring further benefits by encouraging liberal policies and punishing backsliding on commitments.

Regional integration initiatives should be complemented with structural reforms to promote openness, with due consideration given to potential vulnerabilities associated with increased external openness. Experience in other regions suggests that successful economic integration hinges on ambitious and decisive complementary structural reforms, including establishing proper governance mechanisms and institutions. More forceful market-enabling and market-deepening reforms are necessary to underpin further promotion of openness by mitigating such key constraints as corruption, inadequate labor skills, and poor infrastructure. Structural reforms should be complemented by encouraging strong political commitments and grassroots efforts at integration, involving individuals, private sector firms, nongovernmental organizations, and other stakeholders. Strengthening and modernizing macroeconomic frameworks and prudential regimes in tandem with increased openness and integration is also important, especially because the CCA countries have common vulnerability to external shocks owing to their limited diversification and links with the same regional trading partners. Greater integration among similar countries can exacerbate shocks, and sudden changes in the direction of capital flows may induce boom-bust cycles, especially in countries with less developed financial sectors. Gradual and flexible implementation of integration initiatives can help mitigate these risks.

Statistical Appendix

This publication features an abbreviated version of the Statistical Appendix. The full Statistical Appendix is available online at www.imf.org/external/pubs/ft/reo/2014/mcd/eng/pdf/mreost1014.xlsx.

The IMF's Middle East and Central Asia Department (MCD) countries and territories comprise Afghanistan, Algeria, Armenia, Azerbaijan, Bahrain, Djibouti, Egypt, Georgia, Iran, Iraq, Jordan, Kazakhstan, Kuwait, the Kyrgyz Republic, Lebanon, Libya, Mauritania, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tajikistan, Tunisia, Turkmenistan, the United Arab Emirates, Uzbekistan, the West Bank and Gaza, and Yemen.

The following statistical appendix tables contain data for 31 MCD countries. Data revisions reflect changes in methodology and/or revisions provided by country authorities.

All data for Syria are excluded for 2011 onward due to the uncertain political situation.

2011 data for Sudan exclude South Sudan after July 9; data for 2012 onward pertain to the current Sudan.

All data refer to the calendar years, except for the following countries, which refer to the fiscal years: 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) except inflation.

Data on consumer price inflation in Table 1 relate to the calendar year for all aggregates and countries, except for Iran, for which the Iranian calendar year (beginning on March 21) is used.

Tables 1, 3, 4, 6, 7, 8, and 9 include data for West Bank and Gaza.

In Table 1, "oil GDP" includes "gas GDP." In Table 5, "oil" includes gas, which is also an important resource in several countries.

REO aggregates are constructed using a variety of weights as appropriate to the series:

- Composites for data relating to the domestic economy (Table 1, Table 2: Oil and Non-Oil Real GDP Growth, and Tables 3–5) and monetary sector (Table 8: Credit to Private Sector), whether growth rates or ratios, are weighted by GDP valued at purchasing power parities as a share of total MCD or group GDP. Country group composites for the growth rates of broad money (Table 8: Broad Money Growth) are weighted by GDP converted to U.S. dollars at market exchange rates (both GDP and exchange rates are averaged over the preceding three years) as a share of MCD or group GDP.
- Composites relating to the external economy (Tables 6 and 7) denominated in U.S. dollars are sums of individual country data after conversion to U.S. dollars at the average market exchange rates in the years indicated for balance of payments data and at end-of-year market exchange rates for debt denominated in U.S. dollars. Composites relating to the external economy (Tables 6 and 7) denominated in percent of GDP/months of imports are sums of individual country data divided by sums of dollar denominated GDP/sums of imports denominated in US dollars.
- Composites in Table 2 (Crude Oil Production) are sums of the individual country data.

Table 1. Real GDP Growth and Consumer Price Inflation

	Real GDP Growth (Annual change; percent)					Consumer Price Inflation[1] (Year average; percent)				
	Average			Projections		Average			Projections	
	2007–11	2012	2013	2014	2015	2007–11	2012	2013	2014	2015
MENAP	**4.6**	**4.8**	**2.5**	**2.7**	**3.9**	**9.1**	**10.0**	**9.9**	**8.0**	**8.1**
Oil Exporters	**4.6**	**5.7**	**2.2**	**2.5**	**3.9**	**8.6**	**10.3**	**10.2**	**7.0**	**7.5**
Algeria	2.8	3.3	2.8	3.8	4.0	4.5	8.9	3.3	3.2	4.0
Bahrain	4.7	3.4	5.3	3.9	2.9	2.2	2.8	3.3	2.5	2.4
Iran, Islamic Republic of[2]	4.1	–6.6	–1.9	1.5	2.2	17.7	30.5	34.7	19.8	20.0
Iraq	5.9	10.3	4.2	–2.7	1.5	7.9	6.1	1.9	4.7	6.2
Kuwait	1.8	8.3	–0.4	1.4	1.8	5.2	3.2	2.7	3.0	3.5
Libya	–9.8	104.5	–13.6	–19.8	15.0	7.5	6.1	2.6	4.8	6.3
Oman	5.5	5.8	4.8	3.4	3.4	5.9	2.9	1.2	2.8	2.8
Qatar	15.5	6.1	6.5	6.5	7.7	4.7	1.9	3.1	3.4	3.5
Saudi Arabia	6.5	5.8	4.0	4.6	4.5	4.6	2.9	3.5	2.9	3.2
United Arab Emirates	1.5	4.7	5.2	4.3	4.5	5.3	0.7	1.1	2.2	2.5
Yemen	1.2	2.4	4.8	1.9	4.6	12.3	9.9	11.0	9.0	11.4
Oil Importers	**4.5**	**2.9**	**3.0**	**3.1**	**3.9**	**10.1**	**9.4**	**9.1**	**9.9**	**9.6**
Afghanistan, Republic of	10.5	14.0	3.6	3.2	4.5	8.5	6.4	7.4	6.1	5.5
Djibouti	4.8	4.8	5.0	5.5	5.5	5.5	3.7	2.4	3.2	4.0
Egypt	5.2	2.2	2.1	2.2	3.5	12.2	7.1	9.5	10.9	13.4
Jordan	5.2	2.7	2.9	3.5	4.0	5.5	4.6	5.6	3.0	2.6
Lebanon	7.8	2.5	1.5	1.8	2.5	5.7	5.9	3.2	3.5	4.0
Mauritania	2.3	7.0	6.7	6.8	6.8	5.8	4.9	4.1	3.3	4.2
Morocco	4.3	2.7	4.4	3.5	4.7	1.8	1.3	1.9	1.1	2.0
Pakistan	3.4	3.8	3.7	4.1	4.3	12.0	11.0	7.4	8.6	8.0
Sudan	3.6	–2.7	3.3	3.0	3.7	12.9	35.5	36.5	38.0	20.6
Syrian Arab Republic	...	...	...	...	...	...	...	...	...	...
Tunisia	2.9	3.7	2.3	2.8	3.7	4.0	5.6	6.1	5.7	5.0
CCA	**7.3**	**5.6**	**6.6**	**5.5**	**5.6**	**10.1**	**5.3**	**6.0**	**6.4**	**6.4**
Oil and Gas Exporters	**7.6**	**5.6**	**6.8**	**5.6**	**5.7**	**10.2**	**5.7**	**6.3**	**6.5**	**6.5**
Azerbaijan	10.0	2.2	5.8	4.5	4.3	10.5	1.0	2.4	2.8	3.0
Kazakhstan	5.6	5.0	6.0	4.6	4.7	10.1	5.1	5.8	6.9	6.1
Turkmenistan	11.2	11.1	10.2	10.1	11.5	5.6	5.3	6.8	5.0	5.5
Uzbekistan	8.7	8.2	8.0	7.0	6.5	12.3	12.1	11.2	10.0	11.2
Oil and Gas Importers	**4.7**	**5.4**	**5.6**	**4.6**	**4.9**	**9.1**	**2.1**	**3.6**	**5.0**	**6.2**
Armenia	2.7	7.1	3.5	3.2	3.5	6.4	2.5	5.8	1.8	3.8
Georgia	4.9	6.2	3.2	5.0	5.0	7.3	–0.9	–0.5	4.6	4.9
Kyrgyz Republic	4.9	–0.9	10.5	4.1	4.9	13.2	2.8	6.6	8.0	8.9
Tajikistan	6.7	7.5	7.4	6.0	6.0	11.8	5.8	5.0	6.6	8.3
Memorandum										
MENA	**4.7**	**4.8**	**2.3**	**2.6**	**3.8**	**8.8**	**9.9**	**10.2**	**7.9**	**8.2**
MENA Oil Importers	**4.8**	**2.0**	**2.6**	**2.6**	**3.7**	**9.2**	**8.6**	**10.1**	**10.8**	**10.6**
Arab Countries in Transition excluding Libya)	**4.6**	**2.5**	**2.7**	**2.5**	**3.8**	**9.4**	**6.1**	**7.8**	**8.3**	**10.1**
GCC	**5.6**	**5.8**	**4.1**	**4.4**	**4.5**	**4.8**	**2.4**	**2.8**	**2.8**	**3.1**
Non-GCC Oil Exporters	**3.6**	**5.5**	**0.0**	**0.3**	**3.1**	**12.5**	**19.2**	**18.9**	**12.2**	**12.9**
Arab World	**4.8**	**7.4**	**3.2**	**2.8**	**4.2**	**6.5**	**5.3**	**4.9**	**5.3**	**5.7**
West Bank and Gaza[3]	8.3	6.3	1.9	–3.7	4.4	4.4	2.8	1.7	2.6	2.8

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

[1] Data on a calendar year basis for all countries, except Iran.

[2] Iran's real GDP growth for 2012 and beyond has not been significantly updated from previous REO in light of pending publication of national accounts by the central bank and new authorities' plans.

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

Table 2. Oil Exporters: Oil and Non-Oil Real GDP Growth; and Crude Oil and Natural Gas Production

	Average 2007–11	2012	2013	Projections 2014	Projections 2015	Average 2007–11	2012	2013	Projections 2014	Projections 2015
	Oil GDP (Annual percent change)					Non−Oil GDP (Annual percent change)				
MENAP Oil Exporters	**0.9**	**0.7**	**–2.7**	**–1.0**	**1.8**	**6.4**	**5.5**	**4.5**	**4.2**	**4.6**
Algeria	–3.5	–3.4	–5.5	0.4	1.7	7.4	7.1	7.2	5.3	5.0
Bahrain	0.9	–8.5	15.3	–0.2	0.7	5.9	6.6	3.0	5.0	3.5
Iran, Islamic Republic of	0.1	–37.2	–8.9	0.5	–0.3	5.1	–0.7	–1.1	1.6	2.5
Iraq	7.2	12.8	0.3	–4.3	3.5	5.1	8.4	7.3	–1.5	0.0
Kuwait	1.0	12.2	–2.2	0.2	0.2	3.7	1.9	2.8	3.5	4.5
Libya	–16.0	211.4	–31.6	–51.8	45.9	–2.2	43.7	8.7	5.1	4.0
Oman	3.4	4.1	3.3	0.4	0.3	8.5	7.7	6.5	6.5	6.5
Qatar	15.2	1.3	0.1	–1.1	0.9	16.0	10.1	11.4	11.8	11.9
Saudi Arabia	0.7	5.7	–1.0	0.6	0.0	8.5	5.8	5.3	5.6	5.5
United Arab Emirates	–1.6	7.6	4.8	1.7	2.3	3.3	3.3	5.4	5.5	5.5
Yemen	2.6	–11.5	13.2	–8.3	5.4	1.2	4.0	4.0	3.0	4.5
CCA Oil Exporters	**6.2**	**–2.1**	**2.6**	**0.6**	**1.6**	**7.7**	**8.8**	**8.3**	**7.5**	**7.0**
Azerbaijan	10.8	–5.3	0.5	–0.9	–0.1	9.4	9.6	9.9	8.0	7.0
Kazakhstan	4.6	–2.2	2.9	0.2	0.0	6.2	8.0	7.2	6.2	6.3
Turkmenistan	3.6	6.1	5.9	6.0	12.6	13.2	11.7	10.8	13.1	10.7
Uzbekistan	...	...	...	...	...	...	...	...	...	...
Memorandum										
GCC	**1.7**	**5.9**	**0.7**	**0.6**	**0.6**	**7.5**	**5.5**	**5.7**	**6.1**	**6.1**
Non-GCC Oil Exporters	**0.1**	**–5.2**	**–6.6**	**–3.0**	**3.2**	**5.4**	**5.4**	**3.0**	**2.0**	**2.7**
	Crude Oil Production (Millions of barrels per day)					Natural Gas Production (Millions of barrels per day equivalent)				
MENAP Oil Exporters	**24.5**	**25.6**	**24.8**	**24.2**	**24.5**	**10.1**	**12.7**	**12.7**	**12.7**	**13.1**
Algeria	1.2	1.0	1.0	1.0	1.0	1.5	1.5	1.5	1.4	1.4
Bahrain	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Iran, Islamic Republic of[1]	3.8	2.8	2.5	2.5	2.4	2.7	3.2	3.0	3.0	3.0
Iraq	2.3	3.0	3.0	2.9	3.0	0.0	0.0	0.0	0.0	0.0
Kuwait	2.5	3.0	2.9	2.9	2.9	0.2	0.3	0.3	0.3	0.3
Libya	1.5	1.5	1.0	0.5	0.7	0.1	0.1	0.1	0.0	0.0
Oman	0.8	0.9	0.9	1.0	1.0	0.5	0.6	0.7	0.7	0.7
Qatar	0.8	0.7	0.7	0.7	0.7	2.1	3.5	3.6	3.6	3.7
Saudi Arabia	8.7	9.8	9.6	9.7	9.7	1.5	1.8	1.9	2.0	2.1
United Arab Emirates	2.5	2.7	2.7	2.8	2.8	1.1	1.2	1.3	1.3	1.3
Yemen	0.3	0.2	0.2	0.2	0.2	...	0.2	0.2	0.2	0.2
CCA Oil Exporters	**2.7**	**2.7**	**2.8**	**2.8**	**2.8**	**1.3**	**1.4**	**1.4**	**1.5**	**1.6**
Azerbaijan	0.9	0.9	0.9	0.9	0.9	0.3	0.3	0.3	0.3	0.3
Kazakhstan	1.5	1.6	1.7	1.7	1.7	0.0	0.0	0.0	0.0	0.0
Turkmenistan	0.2	0.2	0.3	0.3	0.3	1.0	1.1	1.1	1.2	1.3
Uzbekistan	...	...	...	...	...	...	...	...	...	...
Memorandum										
GCC	**15.5**	**17.2**	**17.2**	**17.2**	**17.3**	**5.8**	**7.7**	**8.0**	**8.2**	**8.4**
Non-GCC Oil Exporters	**9.1**	**8.4**	**7.6**	**7.0**	**7.3**	**4.4**	**4.9**	**4.7**	**4.5**	**4.6**

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

[1] Including condensates.

Table 3. General Government Fiscal Balance and Total Government Gross Debt

	General Government Fiscal Balance, Including Grants (Percent of GDP)					Total Government Gross Debt (Percent of GDP)				
				Projections					Projections	
	Average 2007–11	2012	2013	2014	2015	Average 2007–11	2012	2013	2014	2015
MENAP	**2.4**	**2.6**	**0.0**	**–1.0**	**–1.4**	**32.7**	**31.4**	**32.1**	**32.4**	**32.1**
Oil Exporters	**6.4**	**7.6**	**4.4**	**2.0**	**1.2**	**17.2**	**13.1**	**12.0**	**11.5**	**11.2**
Algeria	0.5	–4.1	–1.9	–5.1	–5.1	11.0	10.0	9.3	9.9	8.1
Bahrain[1]	–1.4	–3.2	–4.3	–4.8	–5.7	22.5	36.3	43.9	47.1	51.4
Iran, Islamic Republic of[1,2]	1.8	–2.0	–2.3	–2.1	–2.2	11.5	11.8	11.3	11.2	11.1
Iraq[3]	–1.0	4.1	–5.9	–3.0	–0.6	72.6	33.5	31.3	30.7	29.8
Kuwait[1]	29.2	34.8	32.1	28.6	26.5	6.0	3.6	3.2	3.1	3.1
Libya	8.1	27.8	–4.0	–52.1	–30.2	0.0	0.0	0.0	0.0	0.0
Oman[1]	8.9	4.6	8.1	3.0	0.2	6.0	6.2	7.3	8.1	9.0
Qatar	8.3	9.6	15.4	11.4	9.0	22.8	35.8	34.3	25.5	24.8
Saudi Arabia	11.9	14.7	8.7	5.2	1.6	11.4	3.6	2.7	2.6	2.5
United Arab Emirates[4]	4.5	8.9	6.5	6.3	6.2	16.9	17.1	11.7	11.4	11.4
Yemen	–6.1	–6.3	–6.9	–5.4	–5.0	43.0	47.3	48.2	48.2	47.4
Oil Importers	**–5.8**	**–8.4**	**–9.5**	**–7.5**	**–6.9**	**64.4**	**71.5**	**75.8**	**77.4**	**77.3**
Afghanistan, Republic of	–1.6	0.2	–0.6	–0.5	–0.8	13.7	6.5	6.1	5.9	6.8
Djibouti	–1.8	–2.7	–5.9	–7.3	–10.5	53.9	43.3	34.7	41.8	48.5
Egypt	–8.1	–10.5	–14.1	–12.2	–11.5	74.6	78.9	89.2	93.8	94.5
Jordan[1,5]	–6.3	–8.9	–11.1	–10.3	–6.0	67.3	80.2	85.8	90.0	91.1
Lebanon[1]	–8.5	–8.6	–9.2	–11.1	–12.0	150.4	134.3	141.0	144.9	147.4
Mauritania[1,6]	–3.3	2.8	–1.1	0.1	0.2	88.9	89.5	87.6	70.0	69.7
Morocco[1]	–2.5	–7.4	–5.5	–5.0	–4.3	51.3	60.4	64.6	66.0	66.2
Pakistan	–6.0	–8.4	–8.1	–4.7	–4.4	57.5	64.0	64.3	62.5	61.4
Sudan	–1.5	–3.7	–2.3	–1.0	–1.2	71.0	94.3	90.3	90.8	87.6
Syrian Arab Republic	–4.1	...	...	...	...	35.3	...	...	...	...
Tunisia	–1.9	–4.7	–5.9	–5.9	–4.1	43.4	44.5	44.8	50.5	54.1
CCA	**4.3**	**4.7**	**2.8**	**1.6**	**1.0**	**12.1**	**14.7**	**15.5**	**15.9**	**16.5**
Oil and Gas Exporters	**5.4**	**5.5**	**3.4**	**2.1**	**1.4**	**9.2**	**12.0**	**12.9**	**13.3**	**14.0**
Azerbaijan[1]	11.6	4.9	0.8	0.3	–1.7	9.8	11.6	13.8	15.9	18.0
Kazakhstan	2.3	4.5	5.0	3.7	3.1	8.8	12.4	12.9	13.7	14.5
Turkmenistan[7]	5.3	6.4	1.3	0.0	0.6	4.4	18.1	20.5	15.8	14.3
Uzbekistan	6.4	8.5	2.9	0.6	0.5	11.7	8.6	8.5	8.6	8.6
Oil and Gas Importers	**–4.4**	**–2.3**	**–2.3**	**–2.7**	**–2.4**	**35.3**	**37.0**	**36.8**	**37.9**	**37.7**
Armenia[1]	–3.9	–1.6	–1.7	–1.7	–2.0	26.5	38.9	41.4	41.5	42.5
Georgia	–5.9	–3.0	–2.6	–3.7	–3.0	31.9	32.3	32.2	33.9	33.6
Kyrgyz Republic	–2.9	–5.3	–4.0	–4.4	–3.2	54.5	49.0	47.7	51.1	50.0
Tajikistan	–4.2	0.6	–0.8	–0.6	–1.3	34.5	32.3	29.2	28.8	28.4
Memorandum										
MENA	**3.4**	**3.9**	**1.0**	**–0.6**	**–1.0**	**29.9**	**27.7**	**28.5**	**28.9**	**28.8**
MENA Oil Importers	**–5.9**	**–8.7**	**–10.5**	**–9.3**	**–8.5**	**69.1**	**77.8**	**84.5**	**88.0**	**88.5**
Arab Countries in Transition (excluding Libya)	**–6.4**	**–9.1**	**–11.3**	**–9.9**	**–8.9**	**65.4**	**70.9**	**78.3**	**82.1**	**82.9**
GCC	**11.4**	**14.2**	**10.9**	**7.9**	**5.3**	**12.9**	**10.2**	**8.8**	**7.9**	**8.0**
Non-GCC Oil Exporters	**1.4**	**0.3**	**–3.2**	**–5.1**	**–4.0**	**21.5**	**16.3**	**15.8**	**15.8**	**15.1**
Arab World	**3.9**	**5.3**	**1.7**	**–0.2**	**–0.8**	**34.5**	**31.4**	**32.2**	**32.7**	**32.5**
West Bank and Gaza[3,8]	–24.7	–16.5	–13.9	–16.5	–15.5	24.6	24.2	20.9	22.9	22.3

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

[1] Central government.

[2] Includes National Development Fund but excludes Targeted Subsidy Organization.

[3] Excluding grants.

[4] Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah. Total goverment gross debts includes banking system claims only. Excludes debt raised by federal and Emirati governments in the international markets.

[5] Central government. Includes transfers to electric company (4.3 percent of GDP and 2.7 percent of GDP in 2013 and 2014, respectively).

[6] Includes oil revenue transferred to the oil fund. Total government gross debt also includes oil revenues transferred to public enterprises and central bank debts.

[7] State government.

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

Table 4. General Government Total Revenue Excluding Grants, and Total Expenditure and Net Lending

	General Government Total Revenue, Excluding Grants (Percent of GDP)					General Government Total Expenditure and Net Lending (Percent of GDP)				
				Projections					Projections	
	Average 2007–11	2012	2013	2014	2015	Average 2007–11	2012	2013	2014	2015
MENAP	**33.2**	**33.1**	**31.9**	**30.6**	**30.2**	**31.1**	**30.6**	**30.6**	**31.9**	**32.5**
Oil Exporters	**39.0**	**39.7**	**37.8**	**35.8**	**34.6**	**32.8**	**31.8**	**33.2**	**33.9**	**33.6**
Algeria[1]	40.0	39.7	35.2	34.4	32.3	39.5	43.7	37.1	39.5	37.4
Bahrain[2]	23.9	26.0	24.0	24.4	23.3	25.7	29.6	28.6	31.5	31.5
Iran, Islamic Republic of[2,3]	24.4	15.0	14.6	13.1	12.3	22.0	15.3	15.6	15.3	14.6
Iraq	46.1	47.4	43.1	42.3	41.3	51.0	43.3	49.1	45.3	42.0
Kuwait[2]	68.5	74.7	73.6	73.6	73.0	39.3	38.8	41.4	44.8	46.8
Libya	57.5	72.3	65.7	31.3	42.6	49.5	44.5	69.8	83.4	72.9
Oman[2]	44.5	49.4	51.7	49.2	47.4	37.9	46.7	44.8	48.1	49.6
Qatar	36.5	40.5	46.5	42.9	39.6	28.2	30.9	31.1	31.5	30.6
Saudi Arabia	46.4	50.3	46.5	45.3	43.2	34.5	35.5	37.8	40.0	41.6
United Arab Emirates[4]	32.9	36.2	34.6	33.3	32.4	28.4	27.3	28.1	27.0	26.3
Yemen	28.6	23.8	23.0	22.5	21.7	35.4	36.2	30.8	29.3	27.7
Oil Importers	**21.4**	**18.8**	**19.1**	**19.5**	**20.6**	**27.8**	**28.0**	**29.2**	**29.4**	**28.7**
Afghanistan, Republic of	9.1	10.1	9.5	9.6	10.5	21.3	25.0	24.3	28.1	30.1
Djibouti	29.5	25.9	27.4	29.5	29.1	38.5	37.2	37.7	42.7	44.9
Egypt	25.7	21.5	22.7	22.4	24.6	34.2	32.7	37.1	39.0	37.2
Jordan[2]	24.5	21.5	21.3	22.9	24.5	34.5	31.2	29.4	31.4	31.3
Lebanon[2]	23.1	22.3	20.9	20.8	21.8	32.2	31.0	30.1	32.0	33.9
Mauritania[2,5]	25.4	33.6	32.9	33.6	33.9	29.9	36.6	34.9	35.5	35.1
Morocco[2,6]	29.1	28.7	27.6	26.6	27.1	31.9	36.1	33.8	32.9	32.4
Pakistan	13.7	12.8	13.1	14.3	14.7	20.0	21.6	21.4	19.8	19.5
Sudan	19.5	9.4	9.2	10.9	11.3	21.3	13.5	12.1	12.4	13.3
Syrian Arab Republic	21.9	...	...	...	...	26.0	...	...	...	...
Tunisia	29.5	29.8	30.3	30.5	30.2	31.6	35.3	36.3	36.8	34.7
CCA	**30.5**	**31.3**	**29.2**	**29.3**	**27.9**	**26.7**	**27.1**	**26.6**	**27.9**	**27.1**
Oil and Gas Exporters	**31.3**	**32.0**	**29.6**	**29.7**	**28.1**	**26.1**	**26.7**	**26.1**	**27.7**	**26.8**
Azerbaijan[2,7]	42.2	40.5	39.4	40.0	38.1	31.3	36.7	38.0	39.7	39.9
Kazakhstan	26.2	26.9	25.3	25.6	23.5	23.9	22.4	20.3	21.9	20.4
Turkmenistan[6]	18.6	21.1	17.6	16.5	16.7	13.3	14.7	16.2	16.4	16.1
Uzbekistan	37.8	41.1	36.2	35.9	35.4	31.7	33.0	33.6	35.6	35.2
Oil and Gas Importers	**24.3**	**26.0**	**26.4**	**25.6**	**25.6**	**30.9**	**29.8**	**30.2**	**29.4**	**29.3**
Armenia[2,7]	20.1	21.9	23.4	23.1	23.4	26.2	24.5	26.8	25.9	26.3
Georgia	27.3	27.8	26.8	26.5	26.3	35.0	31.8	30.1	30.8	30.1
Kyrgyz Republic	27.9	31.3	31.5	28.0	28.1	33.9	39.1	37.6	34.9	33.4
Tajikistan	20.9	23.6	24.6	24.7	24.9	27.4	24.6	27.7	26.5	27.7
Memorandum										
MENA	**35.7**	**35.7**	**34.3**	**32.8**	**32.2**	**32.5**	**31.7**	**33.2**	**34.1**	**33.6**
MENA Oil Importers	**25.4**	**22.2**	**22.7**	**22.6**	**24.1**	**31.8**	**31.4**	**33.4**	**34.6**	**33.5**
Arab Countries in Transition (excluding Libya)	**26.7**	**23.5**	**24.1**	**23.8**	**25.3**	**33.7**	**33.6**	**35.6**	**36.7**	**35.2**
GCC	**44.4**	**48.4**	**46.5**	**45.1**	**43.2**	**33.1**	**34.3**	**35.7**	**37.3**	**38.1**
Non-GCC Oil Exporters	**33.5**	**29.9**	**27.6**	**24.5**	**24.0**	**32.4**	**29.0**	**30.2**	**29.7**	**28.1**
Arab World	**38.5**	**40.4**	**38.6**	**37.0**	**36.4**	**35.2**	**35.4**	**37.0**	**38.1**	**37.6**
West Bank and Gaza[7,8]	23.4	20.2	20.5	24.0	23.9	48.1	36.7	34.3	40.4	39.4

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

[1] Including special accounts.

[2] Central government.

[3] Includes National Development Fund but excludes Targeted Subsidy Organization.

[4] Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.

[5] Includes oil revenue transferred to the oil fund.

[6] State government.

[7] Expenditures do not include statistical discrepancy.

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

Table 5. Oil Exporters: Non-Oil Fiscal Balance and Revenue; Fiscal and External Breakeven Oil Prices

	Average 2007–11	2012	2013	Projections 2014	Projections 2015	Average 2007–11	2012	2013	Projections 2014	Projections 2015
	Non-Oil Fiscal Balance (Percent of non-oil GDP)					Non-Oil Revenue (Percent of non-oil GDP)				
MENAP Oil Exporters	**–43.2**	**–45.1**	**–43.6**	**–41.9**	**–40.1**	**15.6**	**16.2**	**16.5**	**16.4**	**16.1**
Algeria	–45.7	–45.7	–34.2	–36.4	–33.4	18.4	20.9	19.4	20.0	19.1
Bahrain[1]	–28.4	–35.0	–34.6	–35.0	–34.2	4.3	3.9	3.8	3.6	3.6
Iran, Islamic Republic of[1,2]	–17.3	–8.4	–9.4	–8.7	–7.7	11.9	10.2	9.7	9.5	9.5
Iraq	–78.8	–66.4	–71.8	–64.4	–58.0	6.2	8.1	6.9	5.3	5.3
Kuwait[1]	–65.3	–85.6	–81.7	–82.5	–76.7	31.8	40.1	39.4	42.7	44.8
Libya	–126.0	–161.6	–176.2	–138.9	–137.7	18.7	12.2	9.5	9.1	8.8
Oman[1]	–56.3	–88.8	–78.9	–81.9	–77.1	14.4	14.6	15.0	14.8	15.2
Qatar	–28.7	–35.8	–23.1	–24.4	–22.9	31.5	34.7	43.5	37.7	33.3
Saudi Arabia	–49.5	–53.7	–53.2	–55.1	–55.2	17.1	17.3	18.1	17.6	17.2
United Arab Emirates[3]	–30.6	–33.1	–33.9	–29.8	–27.3	12.0	12.0	12.1	12.9	13.0
Yemen	–35.1	–25.6	–24.9	–21.0	–18.5	12.2	12.1	12.8	14.4	15.4
CCA Oil Exporters	**–19.0**	**–21.0**	**–18.9**	**–20.6**	**–19.0**	**21.8**	**19.0**	**18.5**	**17.8**	**16.5**
Azerbaijan[1]	–36.3	–45.7	–45.6	–44.4	–42.8	25.7	18.8	19.8	19.5	19.8
Kazakhstan	–13.3	–13.0	–9.4	–12.6	–11.2	21.3	19.6	18.7	18.0	15.9
Turkmenistan[4]	–8.0	–9.9	–12.2	–12.3	–10.9	13.5	16.1	14.4	13.4	13.0
Uzbekistan	...	...	...	...	...	...	...	...	...	...
Memorandum										
GCC	**–45.2**	**–52.6**	**–50.0**	**–50.5**	**–48.9**	**18.3**	**19.9**	**21.1**	**20.7**	**20.2**
Non-GCC Oil Exporters	**–41.1**	**–36.8**	**–36.2**	**–31.3**	**–29.3**	**12.9**	**12.2**	**11.3**	**11.1**	**11.0**
	Fiscal Breakeven Oil Price[5] (U.S. dollars per barrel)					External Breakeven Oil Prices[6] (U.S. dollars per barrel)				
MENAP Oil Exporters										
Algeria	...	124.7	111.1	132.4	130.5	...	77.0	87.8	93.1	93.5
Bahrain	88.2	119.4	125.3	125.4	127.1	55.1	67.8	64.9	66.6	65.5
Iran, Islamic Republic of	...	130.0	126.5	130.5	130.7	...	60.0	49.2	61.0	71.1
Iraq	...	102.1	106.1	111.2	100.6	...	97.7	98.1	94.3	93.4
Kuwait	...	49.0	50.5	54.2	54.0	...	32.0	35.8	32.9	32.9
Libya	75.6	62.8	110.8	316.8	184.1	50.0	63.2	83.2	189.1	167.6
Oman	61.9	79.8	83.9	99.0	102.6	...	69.4	78.1	82.0	86.9
Qatar	53.0	69.2	44.5	54.8	60.0	...	55.9	55.1	55.9	58.0
Saudi Arabia	...	77.9	89.0	97.5	106.0	...	55.4	59.4	63.5	68.2
United Arab Emirates	70.3	77.6	83.7	79.3	77.3	...	47.6	52.1	64.2	58.8
Yemen	...	237.0	214.8	160.0	145.0	...	218.0	168.0	120.0	108.0
CCA Oil Exporters										
Azerbaijan	33.3	79.5	75.8	86.3	94.8	...	62.5	68.7	67.9	75.3
Kazakhstan	64.3	67.2	63.2	66.5	68.0	...	83.2	108.3	100.8	105.3
Turkmenistan	...	51.2	50.4	57.5	51.9	...	59.3	58.4	56.4	54.0
Uzbekistan	...	...	...	...	...	...	...	...	...	...

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

[1] Central government.

[2] Includes National Development Fund but excludes Targeted Subsidy Organization.

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

[4] State government.

[5] The oil price at which the fiscal balance is zero.

[6] The oil price at which the current account balance is zero.

Table 6. Current Account Balance

	(In billions of U.S. dollars)					(In percent of GDP)				
	Average			Projections		Average			Projections	
	2007–11	2012	2013	2014	2015	2007–11	2012	2013	2014	2015
MENAP	**244.5**	**418.9**	**339.6**	**280.3**	**234.4**	**9.3**	**12.7**	**10.0**	**7.8**	**6.2**
Oil Exporters	**268.7**	**463.5**	**376.9**	**307.8**	**273.1**	**13.7**	**18.4**	**14.8**	**11.6**	**9.8**
Algeria	19.5	12.3	0.8	–6.8	–7.0	12.1	5.9	0.4	–3.0	–2.9
Bahrain	1.9	2.2	2.6	2.4	2.2	7.8	7.2	7.8	7.0	6.4
Iran, Islamic Republic of	30.3	26.3	27.4	17.0	6.9	7.4	6.6	7.5	4.2	1.7
Iraq	8.2	14.5	–1.7	7.0	5.8	5.5	6.7	–0.8	3.0	2.4
Kuwait	47.0	79.2	71.2	73.2	69.8	36.0	45.5	40.5	40.8	38.6
Libya	18.8	23.8	8.9	–13.4	–13.1	26.0	29.1	13.6	–27.1	–20.9
Oman	4.7	10.1	9.2	8.0	4.5	7.9	13.3	11.9	9.9	5.6
Qatar	24.1	62.0	62.6	57.4	52.6	18.7	32.7	30.9	27.1	23.2
Saudi Arabia	94.4	164.8	132.6	117.3	100.1	17.8	22.4	17.7	15.1	12.4
United Arab Emirates	21.2	69.0	64.7	46.3	51.8	6.9	18.5	16.1	11.1	11.8
Yemen	–1.5	–0.6	–1.2	–0.6	–0.6	–5.6	–1.7	–3.1	–1.3	–1.1
Oil Importers	**–24.2**	**–44.7**	**–37.3**	**–27.5**	**–38.7**	**–3.6**	**–5.6**	**–4.5**	**–3.5**	**–4.4**
Afghanistan, Republic of	0.5	0.8	0.9	1.0	0.0	3.8	3.9	4.3	4.8	0.1
Djibouti	–0.1	–0.2	–0.3	–0.5	–0.6	–14.8	–18.4	–23.8	–31.4	–35.0
Egypt	–2.2	–10.1	–7.4	–1.3	–12.8	–0.9	–3.9	–2.7	–0.4	–4.0
Jordan	–2.1	–4.8	–3.3	–3.7	–2.7	–9.3	–15.4	–9.8	–10.0	–6.9
Lebanon	–3.9	–5.5	–5.8	–6.0	–6.2	–11.4	–12.7	–12.9	–12.7	–12.3
Mauritania	–0.4	–1.3	–1.3	–1.1	–1.8	–13.0	–32.4	–30.1	–26.8	–39.4
Morocco	–4.3	–9.3	–7.9	–7.7	–7.1	–4.6	–9.7	–7.6	–6.8	–5.8
Pakistan[1]	–6.7	–4.7	–2.5	...	...	–4.0	–2.1	–1.1	–1.2	–1.3
Sudan	–2.1	–5.8	–5.8	–4.5	–4.1	–3.9	–9.2	–8.6	–6.5	–6.3
Syrian Arab Republic	–1.0	...	...	...	...	–1.8	...	...	...	...
Tunisia	–1.9	–3.7	–4.0	–3.8	–3.3	–4.2	–8.2	–8.4	–7.7	–6.6
CCA	**13.4**	**12.6**	**8.3**	**7.4**	**3.5**	**4.5**	**3.2**	**1.9**	**1.6**	**0.7**
Oil and Gas Exporters	**17.1**	**16.7**	**11.3**	**11.1**	**7.3**	**6.6**	**4.7**	**2.8**	**2.7**	**1.6**
Azerbaijan	13.5	15.0	12.5	11.3	8.9	28.0	21.8	17.0	14.6	10.4
Kazakhstan	1.1	1.1	–0.1	0.6	–1.8	–0.1	0.5	–0.1	0.3	–0.7
Turkmenistan	0.6	0.0	–1.2	–0.9	–0.2	1.7	0.0	–2.9	–1.9	–0.3
Uzbekistan	2.0	0.6	0.1	0.1	0.3	6.0	1.2	0.1	0.1	0.5
Oil and Gas Importers	**–3.8**	**–4.1**	**–3.0**	**–3.7**	**–3.8**	**–11.8**	**–10.3**	**–7.0**	**–8.4**	**–8.1**
Armenia	–1.3	–1.1	–0.8	–0.9	–0.8	–13.3	–11.1	–8.0	–7.7	–7.3
Georgia	–1.8	–1.9	–1.0	–1.3	–1.4	–15.1	–11.7	–5.9	–8.4	–7.9
Kyrgyz Republic	–0.4	–1.1	–1.1	–1.1	–1.2	–8.1	–15.9	–14.8	–14.2	–14.8
Tajikistan	–0.3	–0.1	–0.1	–0.4	–0.3	–5.6	–1.5	–1.4	–4.7	–3.6
Memorandum										
MENA	**250.8**	**422.7**	**341.2**	**279.3**	**234.4**	**10.3**	**13.8**	**10.9**	**8.6**	**6.8**
MENA Oil Importers	**–17.9**	**–40.8**	**–35.7**	**–28.6**	**–38.7**	**–3.6**	**–7.5**	**–6.2**	**–4.7**	**–5.9**
Arab Countries in Transition (excluding Libya)	**–12.0**	**–28.6**	**–23.8**	**–17.0**	**–26.5**	**–3.0**	**–6.1**	**–4.8**	**–3.2**	**–4.5**
GCC	**193.3**	**387.3**	**342.9**	**304.6**	**281.1**	**16.5**	**24.6**	**20.9**	**17.9**	**15.9**
Non-GCC Oil Exporters	**75.4**	**76.3**	**34.1**	**3.3**	**–8.0**	**9.7**	**8.1**	**3.7**	**0.3**	**–0.8**
Arab World	**220.5**	**396.5**	**313.8**	**262.3**	**227.5**	**10.8**	**14.9**	**11.4**	**9.2**	**7.5**
West Bank and Gaza[2]	–0.7	–3.0	–2.0	–2.9	–3.8	–8.6	–28.9	–18.0	–26.1	–31.4

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

[1] Because of the ongoing IMF program with Pakistan, the series from which the nominal exchange rate assumptions can be calculated are not made public, as the nominal exchange rate is a market-sensitive issue in Pakistan.

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

Table 7. Gross Official Reserves and Total Gross External Debt

	Gross Official Reserves (Months of imports)					Total Gross External Debt (Percent of GDP)[1]				
				Projections					Projections	
	Average 2007–11	2012	2013	2014	2015	Average 2007–11	2012	2013	2014	2015
MENAP	**11.9**	**13.2**	**13.7**	**13.3**	**12.7**	**29.6**	**25.6**	**26.6**	**26.3**	**25.7**
Oil Exporters	**14.0**	**15.7**	**16.2**	**15.7**	**14.7**	**27.4**	**22.3**	**23.4**	**22.6**	**21.6**
Algeria	33.2	34.8	34.2	33.5	31.6	3.5	1.8	1.6	1.3	1.1
Bahrain	3.6	3.9	3.9	4.5	5.1	130.8	128.3	134.3	138.0	142.0
Iran, Islamic Republic of	10.4	17.0	17.3	16.5	15.3	5.9	1.9	1.8	1.6	1.4
Iraq	9.8	9.7	11.4	11.1	10.2	68.4	27.9	26.1	25.3	24.0
Kuwait	5.9	7.1	7.5	8.3	8.1	36.9	21.5	21.4	21.1	21.1
Libya	47.5	44.2	48.3	34.3	25.8	9.4	6.8	8.5	11.3	8.8
Oman	5.5	4.6	5.1	5.3	5.2	15.2	13.0	12.7	12.3	12.1
Qatar	5.5	6.7	8.3	9.0	9.4	69.6	84.9	82.7	76.0	69.1
Saudi Arabia[2]	27.7	33.9	35.2	35.5	34.3	17.3	12.0	11.5	10.7	9.9
United Arab Emirates	2.2	1.8	2.3	2.3	2.6	46.7	38.2	42.5	43.7	42.6
Yemen	6.5	5.5	4.5	3.2	3.1	22.3	17.4	15.2	13.7	13.2
Oil Importers	**5.8**	**4.5**	**4.4**	**4.6**	**4.8**	**36.0**	**36.2**	**36.5**	**42.2**	**42.3**
Afghanistan, Republic of	4.5	6.9	7.1	7.2	7.3	13.7	6.5	6.1	5.9	5.8
Djibouti	1.9	3.1	4.1	4.0	3.5	58.1	49.2	48.4	51.7	61.6
Egypt	6.1	2.7	2.5	2.7	2.9	18.1	14.9	16.4	18.7	18.9
Jordan[3]	6.7	4.8	6.7	6.7	6.6	27.2	23.6	26.4	30.0	30.0
Lebanon[4]	9.3	11.9	11.9	11.6	11.5	173.3	168.2	173.8	176.4	176.5
Mauritania	1.1	2.9	3.1	2.9	3.2	94.4	106.6	108.6	89.4	88.2
Morocco	6.3	4.2	4.3	4.5	4.6	24.5	29.8	31.1	32.9	33.2
Pakistan	3.3	2.7	1.5	2.1	3.0	30.0	29.1	26.2	...	...
Sudan	1.7	1.9	1.9	1.9	2.2	62.9	68.4	67.4	66.3	74.4
Syrian Arab Republic	9.1	...	...	...	...	16.6	...	...	...	...
Tunisia	4.5	4.0	3.3	4.0	4.2	48.7	53.8	54.0	55.8	60.5
CCA	**6.1**	**6.6**	**6.5**	**6.5**	**6.2**	**51.4**	**45.8**	**45.3**	**46.7**	**45.7**
Oil and Gas Exporters	**6.8**	**7.5**	**7.4**	**7.4**	**7.1**	**50.9**	**43.6**	**43.3**	**44.7**	**43.7**
Azerbaijan[3,5]	6.2	7.2	9.0	9.7	8.5	7.3	9.2	13.4	15.9	16.1
Kazakhstan	5.8	5.5	4.8	5.0	5.0	83.5	67.3	64.2	69.7	67.8
Turkmenistan[3]	...	...	...	...	...	4.4	18.1	20.5	15.8	14.3
Uzbekistan[3]	11.2	14.5	14.2	13.2	12.4	14.6	13.0	12.9	13.0	13.4
Oil and Gas Importers	**3.3**	**3.3**	**3.4**	**3.1**	**3.1**	**55.8**	**65.7**	**65.2**	**65.0**	**64.9**
Armenia	4.7	4.4	5.4	4.8	4.5	51.1	74.9	81.5	78.2	78.5
Georgia	3.4	3.7	3.3	3.0	3.1	52.9	63.7	62.3	64.0	63.5
Kyrgyz Republic[3]	3.9	3.7	4.2	3.7	3.7	83.8	79.3	74.2	75.4	74.4
Tajikistan	0.8	1.4	1.1	1.0	1.1	47.6	46.2	43.2	41.9	43.1
Memorandum										
MENA	**12.4**	**13.7**	**14.2**	**13.8**	**13.1**	**29.6**	**25.5**	**26.8**	**26.5**	**25.8**
MENA Oil Importers	**6.3**	**4.8**	**4.9**	**5.0**	**5.1**	**39.0**	**40.3**	**41.8**	**43.5**	**43.6**
Arab Countries in Transition (excluding Libya)	**6.0**	**3.8**	**3.8**	**3.9**	**4.0**	**24.1**	**22.5**	**23.6**	**25.5**	**25.7**
GCC	**11.8**	**13.3**	**13.9**	**14.0**	**13.6**	**35.2**	**30.3**	**31.5**	**30.6**	**29.5**
Non-GCC Oil Exporters	**18.9**	**21.8**	**22.5**	**20.4**	**18.1**	**16.2**	**8.9**	**8.9**	**8.3**	**7.8**
Arab World	**12.6**	**13.5**	**14.0**	**13.7**	**13.0**	**34.3**	**29.0**	**30.1**	**30.0**	**29.2**
West Bank and Gaza[6]	1.9	1.2	1.1	...	...	15.3	10.7	9.8	10.0	9.2

Sources: National authorities; and IMF staff estimates and projections.
[1] Nominal GDP is converted to U.S. dollars using period average exchange rate.
[2] Saudi Arabia Monetary Agency gross foreign assets.
[3] Excludes deposits of nonresidents held in the banking system.
[4] Excludes gold and encumbered assets.
[5] Public and publicly guaranteed debt, as private debt data are not reliable.
[6] West Bank and Gaza is not a member of the IMF and is not included in any of the aggregates.

Table 8. Broad Money Growth and Depository Corporations (Banking System) Credit to Private Sector

	Broad Money Growth (Annual change; percent)					Credit to Private Sector (Annual change; percent)				
				Projections					Projections	
	Average 2007–11	2012	2013	2014	2015	Average 2007–11	2012	2013	2014	2015
MENAP	**16.5**	**14.8**	**15.9**	**13.1**	**12.2**	**16.7**	**14.1**	**13.4**	**13.2**	**13.4**
Oil Exporters	**17.8**	**15.1**	**16.7**	**13.1**	**12.3**	**18.2**	**15.9**	**15.5**	**14.3**	**14.0**
Algeria	15.5	10.9	8.4	14.1	9.0	14.2	13.5	20.9	17.3	10.6
Bahrain	15.8	4.1	8.2	10.7	4.9	20.5	6.2	6.6	6.2	4.9
Iran, Islamic Republic of	22.3	30.0	29.1	22.2	22.9	21.3	14.7	24.6	25.0	24.3
Iraq	30.3	4.1	16.0	3.7	4.8	37.2	61.7	14.0	7.0	13.0
Kuwait	11.9	6.9	9.7	6.2	7.8	12.4	3.1	7.3	6.2	7.8
Libya	25.3	13.2	6.9	4.0	3.5	13.3	30.4	20.7	4.6	3.5
Oman	17.7	10.7	8.5	10.0	10.0	21.0	14.9	6.8	11.0	11.0
Qatar	23.3	22.9	19.6	14.1	13.4	26.7	13.5	13.5	14.1	14.9
Saudi Arabia	13.2	13.9	10.9	11.0	10.9	13.0	16.4	12.5	13.0	12.8
United Arab Emirates	16.4	4.4	22.5	16.1	14.1	18.7	2.3	10.3	13.4	13.8
Yemen	10.1	21.5	12.5	11.2	15.0	7.9	–0.6	38.9	12.0	15.0
Oil Importers	**13.1**	**14.0**	**13.5**	**13.1**	**11.7**	**12.4**	**8.6**	**7.2**	**9.8**	**10.9**
Afghanistan, Republic of	31.0	8.8	11.9	12.4	9.4	30.6	4.3	12.8	7.2	8.1
Djibouti	11.1	15.1	6.9	10.9	9.8	20.2	2.2	15.6	15.0	15.5
Egypt	12.5	8.3	18.4	17.1	14.3	7.8	7.1	9.8	7.4	12.3
Jordan	11.4	3.4	9.7	11.1	10.9	9.5	6.9	8.0	8.6	9.6
Lebanon[1]	13.8	7.9	9.0	8.0	8.0	17.4	10.5	9.6	7.4	6.9
Mauritania	16.1	10.5	13.6	12.4	11.8	15.6	14.6	11.1	8.0	13.9
Morocco	9.7	4.5	2.8	4.5	5.0	16.5	4.8	3.8	4.4	4.6
Pakistan	13.2	20.9	15.9	12.5	11.6	9.1	3.9	–0.6	11.4	12.0
Sudan	18.7	40.3	13.0	19.1	16.3	15.4	34.1	23.2	28.0	21.9
Syrian Arab Republic	11.7	...	...	...	...	25.0	...	...	...	...
Tunisia[2]	12.2	8.4	6.6	10.2	9.7	13.6	8.8	6.8	6.0	7.4
CCA	**28.6**	**16.2**	**15.6**	**16.3**	**15.9**	**26.5**	**19.8**	**22.8**	**17.8**	**15.2**
Oil and Gas Exporters	**29.6**	**16.1**	**15.0**	**16.0**	**15.8**	**26.2**	**19.7**	**22.4**	**17.4**	**14.6**
Azerbaijan	33.7	20.6	15.4	12.2	20.0	37.1	20.8	27.6	8.4	11.3
Kazakhstan	21.8	7.9	10.2	14.3	11.0	16.7	12.4	12.8	14.3	10.8
Turkmenistan	45.1	35.6	32.4	20.1	21.2	57.0	47.0	50.0	45.0	35.0
Uzbekistan	42.2	29.2	22.5	25.5	24.7	32.9	29.8	35.9	23.0	19.0
Oil and Gas Importers	**22.2**	**17.1**	**20.8**	**19.0**	**17.2**	**28.7**	**19.8**	**26.4**	**21.4**	**20.3**
Armenia	19.1	19.6	15.2	13.8	11.2	40.6	26.9	12.2	15.2	13.4
Georgia	21.3	11.4	24.4	21.5	18.5	25.0	12.8	19.5	21.6	17.2
Kyrgyz Republic	20.0	23.8	22.8	19.4	21.2	26.1	26.2	36.1	22.0	36.3
Tajikistan	33.8	19.5	19.7	20.4	19.0	14.5	17.6	53.6	29.1	21.3
Memorandum										
MENA	**16.7**	**14.4**	**15.9**	**13.1**	**12.2**	**17.2**	**14.9**	**14.5**	**13.4**	**13.5**
MENA Oil Importers	**12.6**	**11.4**	**12.6**	**13.4**	**11.8**	**13.3**	**10.6**	**10.0**	**9.3**	**11.0**
Arab Countries in Transition (excluding Libya)	**11.5**	**8.1**	**12.8**	**12.9**	**11.8**	**11.0**	**6.2**	**10.3**	**7.1**	**10.3**
GCC	**15.0**	**11.4**	**14.4**	**12.0**	**11.5**	**16.1**	**10.8**	**11.1**	**12.3**	**12.5**
Non-GCC Oil Exporters	**21.8**	**20.3**	**20.1**	**14.7**	**13.6**	**21.1**	**23.1**	**22.0**	**17.5**	**16.6**
Arab World	**15.7**	**11.1**	**13.4**	**11.6**	**10.7**	**16.4**	**15.0**	**12.5**	**11.4**	**11.9**
West Bank and Gaza[3]	8.3	4.3	2.9	...	...	12.1	11.6	3.0	13.9	10.0

Sources: National authorities; and IMF staff estimates and projections.
[1] Broad money is defined to include nonresident deposits (M5).
[2] Broad money includes currency, demand deposits, quasi money, and long-term deposits. Credit to private sector includes credit to public enterprises.
[3] West Bank and Gaza is not a member of the IMF and is not included in any of the aggregates.

Table 9. Financial Sector Indicators

	Capital Adequacy Ratios (Percent of risk-weighted assets)			Return on Assets (Pretax, percent)			Nonperforming Loans (90-day basis, percent of total loans)		
	Dec 2011	Dec 2012	Dec 2013	Dec 2011	Dec 2012	Dec 2013	Dec 2011	Dec 2012	Dec 2013
MENAP									
Oil Exporters									
Algeria	23.7	...	...	2.1	...	...	14.4	...	...
Bahrain	19.9	19.3	19.2	1.2	1.2	1.6	4.9	5.8	5.6
Iran, Islamic Republic of[1]	...	...	...	...	...	...	...	17.6	15.4
Iraq	...	...	...	...	...	...	...	...	...
Kuwait	18.5	18.0	18.9	1.1	1.2	1.0	7.3	5.2	3.6
Libya	16.6	15.7	...	0.6	0.7	0.6	20.6	21.0	21.0
Oman	15.9	16.0	16.2	1.8	1.8	1.6	2.2	2.1	2.1
Qatar	20.6	18.9	16.0	2.7	2.4	2.1	1.7	1.7	1.9
Saudi Arabia	17.6	18.2	17.9	2.1	2.1	2.0	2.2	1.9	1.3
United Arab Emirates[2]	20.0	21.2	19.3	1.5	2.0	2.0	7.2	8.4	7.3
Yemen[3]	24.3	29.6	26.4	1.5	1.2	1.5	21.2	25.5	21.7
Oil Importers									
Afghanistan, Republic of	...	...	...	...	...	...	...	...	...
Djibouti	9.4	11.7	...	1.0	1.3	...	9.4	11.4	...
Egypt[4,5]	15.6	15.9	13.0	1.0	0.8	1.0	10.9	10.0	9.1
Jordan	19.3	19.0	18.4	1.1	1.1	1.2	8.5	7.7	7.0
Lebanon[4,6]	11.6	11.2	...	1.1	1.0	1.0	3.7	3.8	4.0
Mauritania[7]	35.2	29.2	32.4	1.2	1.4	2.0	39.2	25.7	20.4
Morocco	11.7	12.3	...	1.1	1.0	...	4.8	5.0	5.8
Pakistan	15.1	15.4	15.1	2.2	2.1	1.7	15.7	14.5	13.0
Sudan	13.0	12.0	16.6	4.2	4.4	3.7	12.6	11.8	8.4
Syrian Arab Republic	...	...	...	...	...	...	...	...	...
Tunisia	11.9	11.8	9.2	0.6	0.6	0.7	13.3	14.6	14.9
CCA									
Armenia	18.3	16.8	16.7	1.9	1.1	1.4	3.4	3.6	4.5
Azerbaijan	14.7	16.8	18.1	–1.1	0.7	1.5	6.0	5.7	4.5
Georgia[8]	25.6	25.3	25.2	2.9	1.0	2.6	4.6	3.7	3.1
Kazakhstan	17.4	18.1	18.8	–0.1	–1.5	...	30.8	28.2	31.3
Kyrgyz Republic	30.3	28.3	25.0	3.0	3.0	2.8	10.2	7.2	5.5
Tajikistan[9]	21.3	23.3	20.2	–0.4	0.2	0.7	7.2	9.5	16.0
Turkmenistan	19.4	45.3	...	2.6	2.6	...	0.0	0.0	...
Uzbekistan	24.2	24.3	24.3	1.9	1.9	2.0	0.7	0.5	0.4
Memorandum:									
West Bank and Gaza[10]	24.5	22.7	20.7	1.9	1.8	1.9	2.8	3.1	2.9

Source: National authorities.
[1] December data refer to March data of the following year.
[2] National banks only.
[3] Data refer to all banks except the Housing Bank and CAC Bank.
[4] After tax.
[5] Provisioning to nonperforming loans surpassed 100 percent as of December 2009 and data refer to end of fiscal year.
[6] CAR according to Basel II in 2010 and Basel III from 2011 onwards.
[7] Provisioning to nonperforming loans stood at 89 percent in June 2011.
[8] Cumulative and annualized.
[9] CAR: Tier 1 capital as percent of risk-weighted assets. ROA: the quick turnaround in profitability in H1 2013 reflects sizeable underprovisioning for nonperforming assets in some large banks. Nonperforming loans: loans overdue by 30 days or more.
[10] West Bank and Gaza is not a member of the IMF and is not included in any of the aggregates.

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