

Middle East and Central Asia Regional Economic Outlook

Learning To Live With Cheaper Oil Amid Weaker Demand

January 2015 Update



Outline

**Recent Global Developments and
Implications for the Region**

**Middle East and North Africa
(MENAP): Oil Exporters**

MENAP: Oil Importers

Caucasus and Central Asia (CCA)

Outline

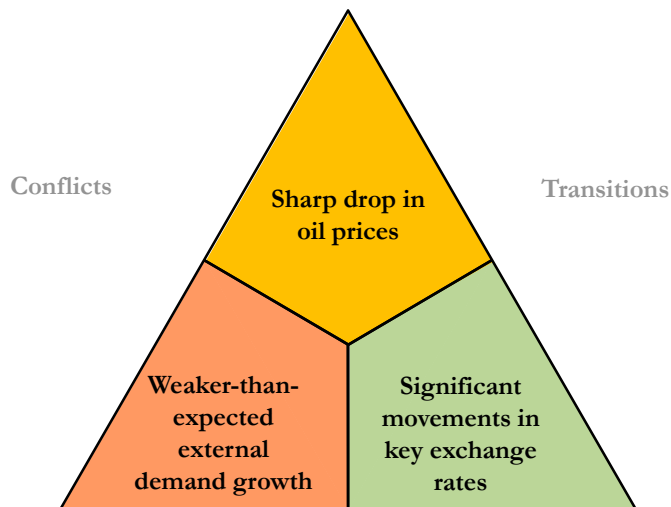
Recent Global Developments and Implications for the Region

Middle East and North Africa (MENAP): Oil Exporters

MENAP: Oil Importers

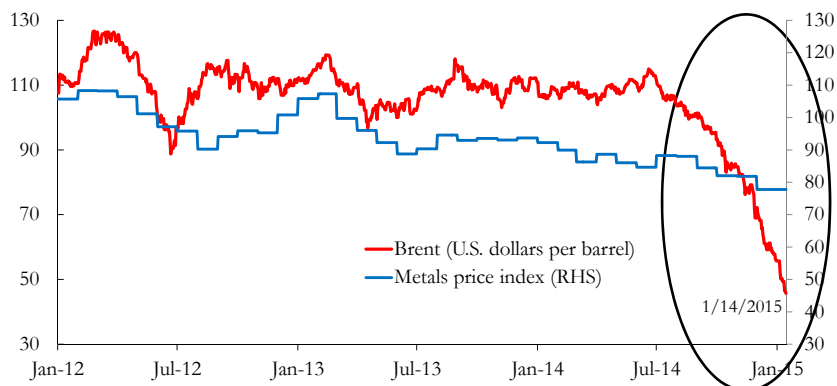
Caucasus and Central Asia (CCA)

Three global factors have significantly affected the regional outlook since last October



The slump in oil prices is the most important change for oil exporters

Commodity Prices



Sources: IMF, WEO Global Assumptions; and Bloomberg, L.P.



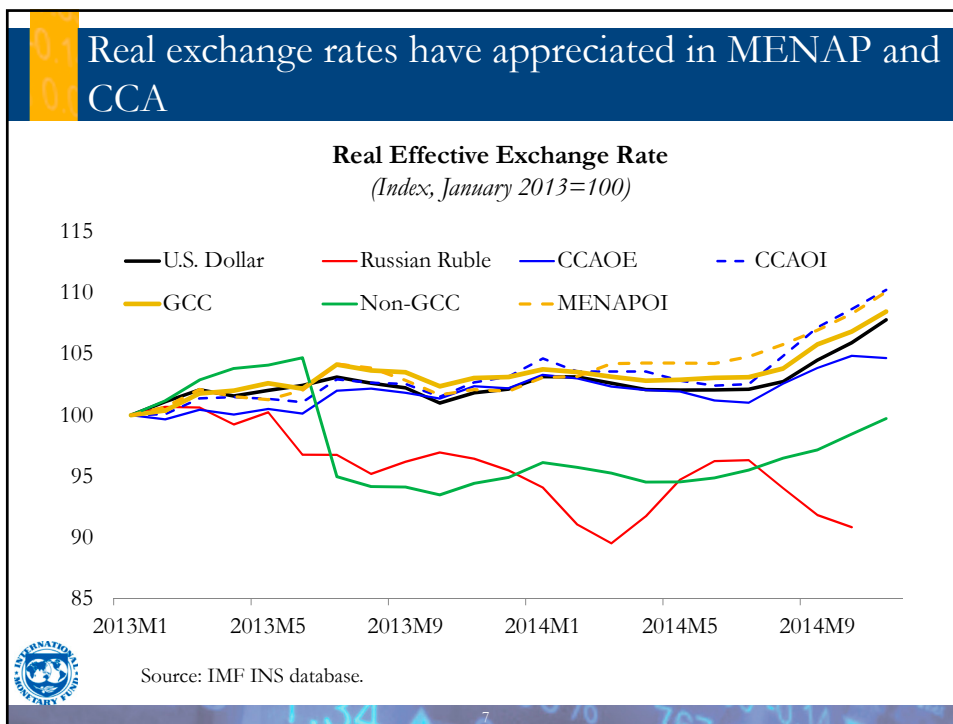
Weaker growth in the euro area and Russia weigh on MENAP and CCA exports and remittances



	World	U.S.	Euro Area	Emerging markets	China	Russia
2014	3.3	2.4	0.9	4.4	7.4	0.6
2015	3.5	3.6	1.2	4.3	6.8	-3.0
Revision from Fall 2014	-0.3	0.5	-0.2	-0.6	-0.3	-3.5
2016	3.7	3.3	1.5	4.7	6.3	-1.0
Revision from Fall 2014	-0.3	0.3	-0.3	-0.5	-0.5	-2.5



Sources: National authorities; and IMF staff calculations.




The regional outlook has weakened mainly because of lower oil prices and spillovers from Russia

	Middle East and North Africa			Caucasus and Central Asia		
	Total	Oil Exporters	Oil Importers	Total	Oil Exporters	Oil Importers
2014	2.8	2.7	3.0	5.2	5.2	4.7
2015	3.3	3.0	3.9	4.9	4.9	4.4
Revision from Fall 2014	-0.6	-0.9	0.0	-0.7	-0.8	-0.4
2016	3.9	3.7	4.5	5.4	5.5	4.7
Revision from Fall 2014	-0.5	-0.9	0.2	0.1	0.1	-0.2

Sources: National authorities; and IMF staff calculations.

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A large decline in oil prices will lead to substantial losses in export revenues in MENAP oil exporters

Net Oil Exports, 2015
(Percent of Total Exports)

Country	Percent of Total Exports
Libya	~90
Iraq	~85
Algeria	~80
Kuwait	~80
Qatar	~75
Saudi Arabia	~70
Oman	~45
Iran	~40
Bahrain	~25
UAE	~15
Yemen	~5


Oil Export Revenue Losses, 2015
(Bars are losses in percent of GDP; adjacent numbers are losses in USD bn)

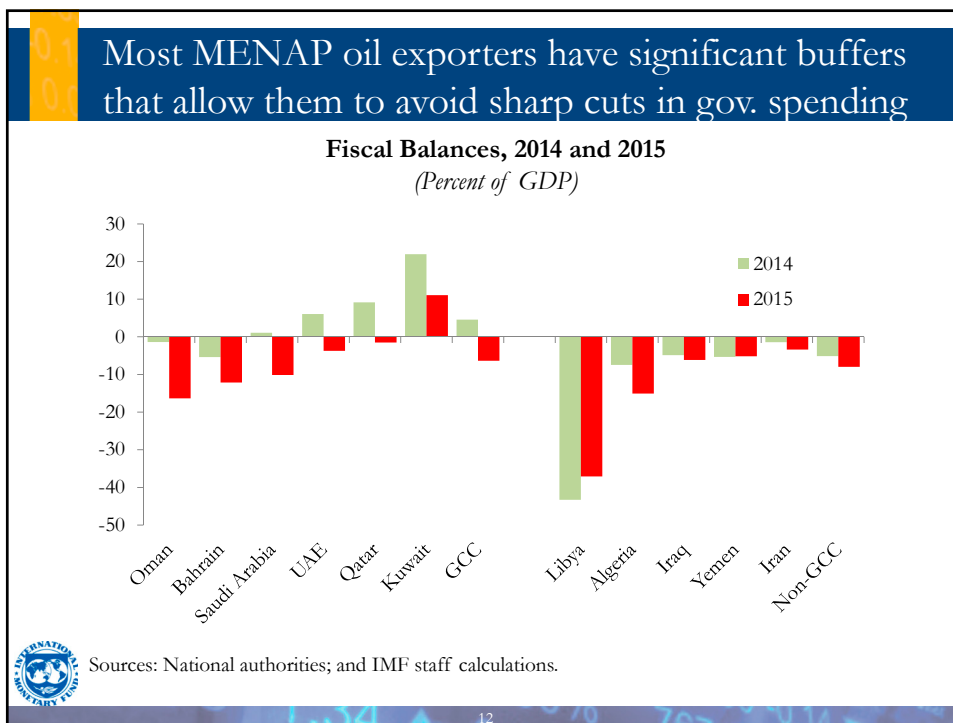
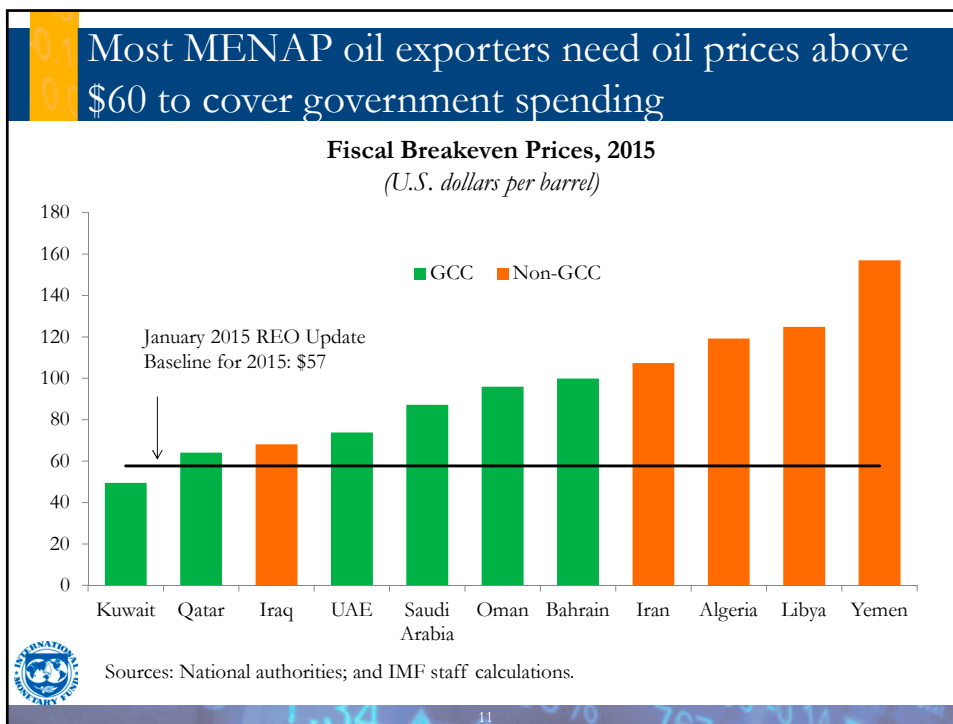
Country	Losses in USD bn
Kuwait	\$50
Qatar	\$44
Iraq	\$46
Oman	\$15
Libya	\$10
Saudi Arabia	\$138
UAE	\$47
Algeria	\$20
Bahrain	\$3
Iran	\$16
Yemen	\$0.4

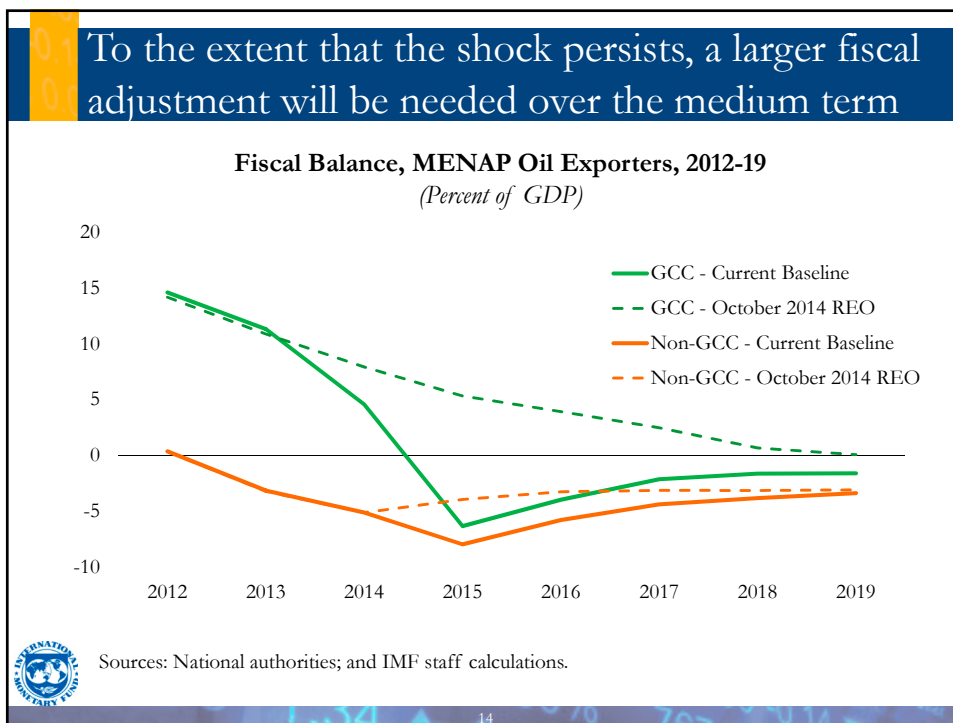
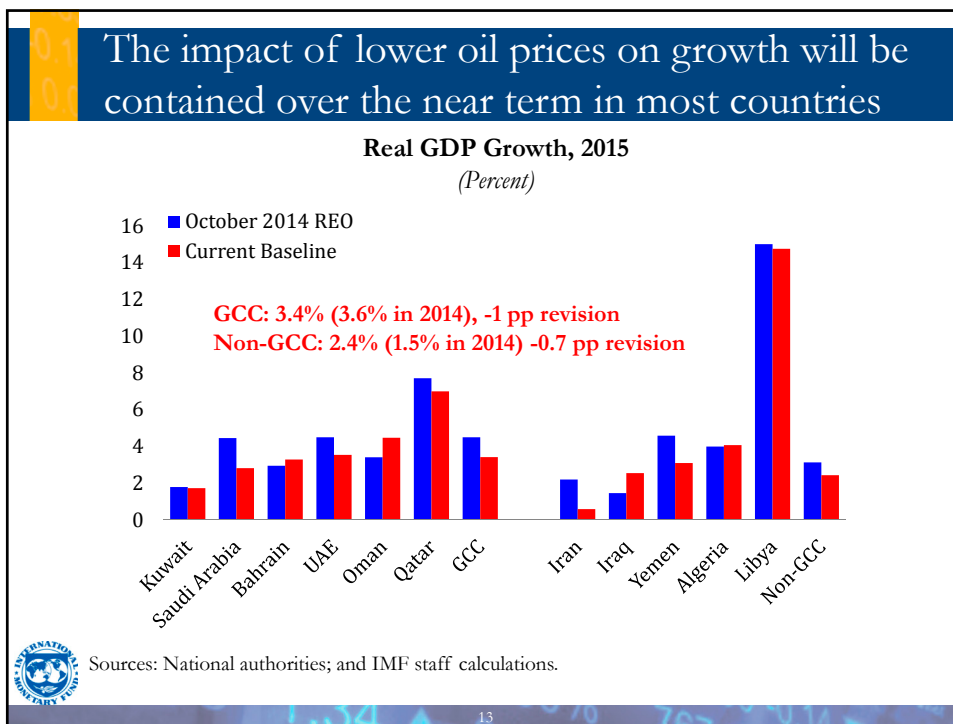
GCC: \$300 bil.
21 pp of GDP

Non-GCC: \$90 bil.
10 pp of GDP

Sources: National authorities; and IMF staff calculations.

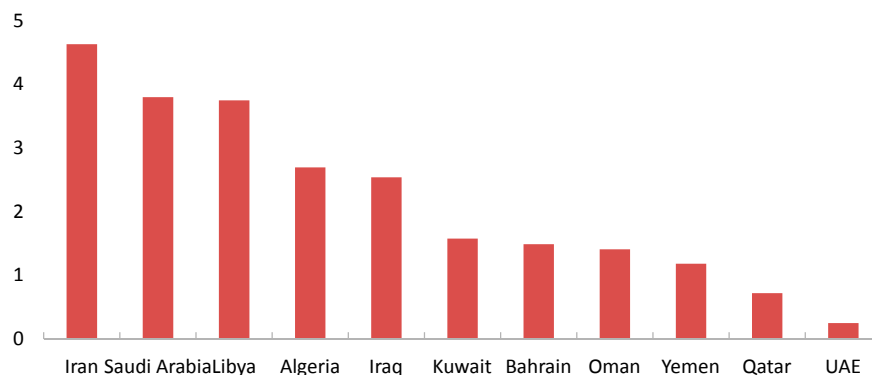






Energy prices remain significantly below international levels

Fuel Subsidies, 2015¹
(Percent of GDP)



Sources: National authorities; and IMF staff estimates.

¹Size of subsidy bill is estimated using 2013 data. Calculations are based on a price-gap analysis following IMF Board paper (SM/13/29) and MCD departmental paper (14/3).



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Policy Implications for MENAP Oil Exporters


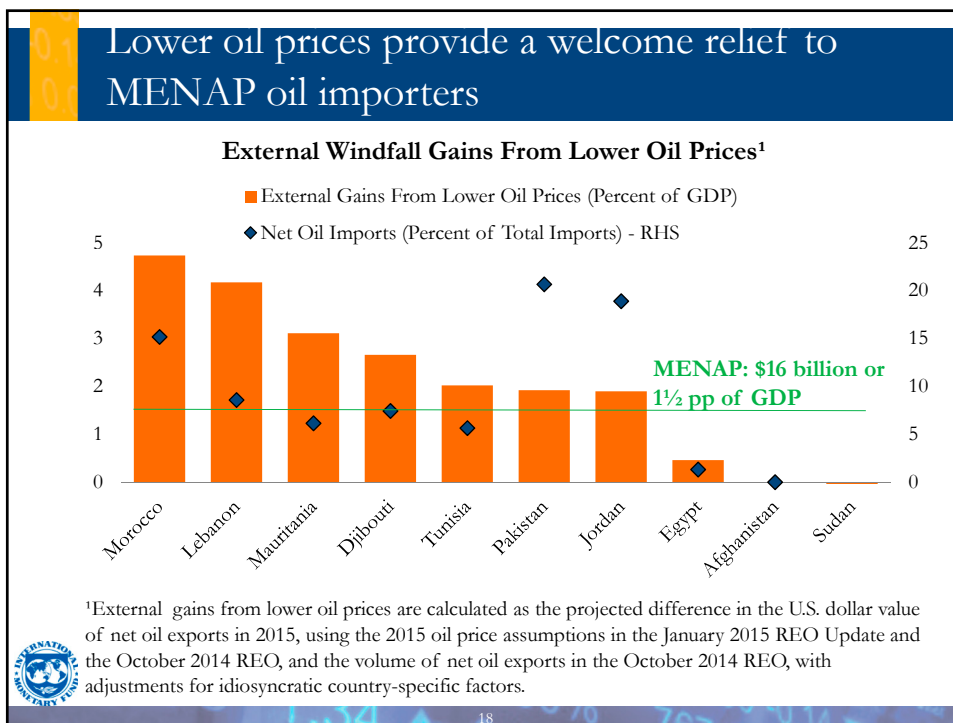
- The recent slide in oil prices has accelerated the weakening of fiscal and current account positions.
- In the short run, countries can use available **buffers** and financing to avoid sharp cuts in spending and limit impact on nonoil growth.
- To ensure intergenerational equity and rebuild buffers, countries need to put in place **medium-term fiscal consolidation plans**: slowing growth of current spending (wage bills and energy subsidies), prioritizing capital expenditures, and raising nonoil revenues.
- **Diversification** needs to support fiscal consolidation, aiming for the private sector to replace oil and government spending as the key drivers of the economy.

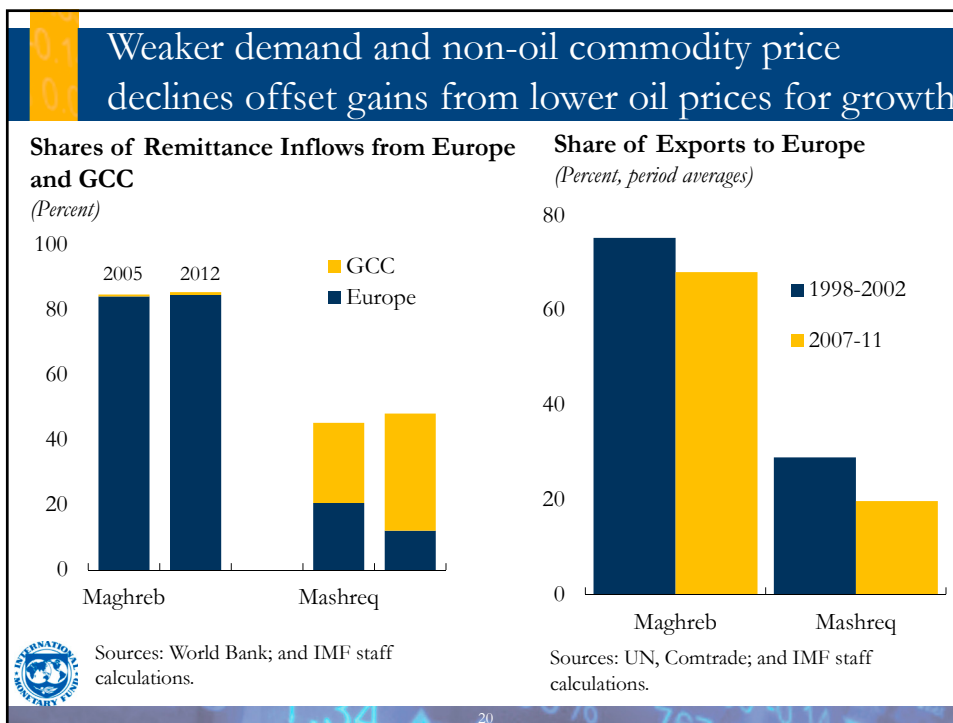
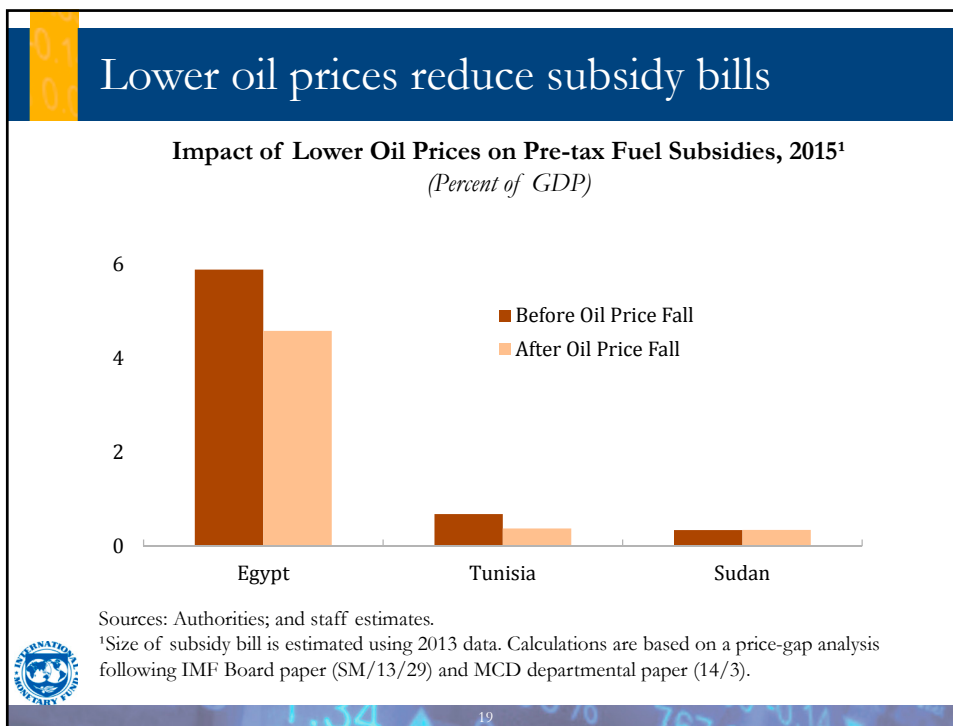


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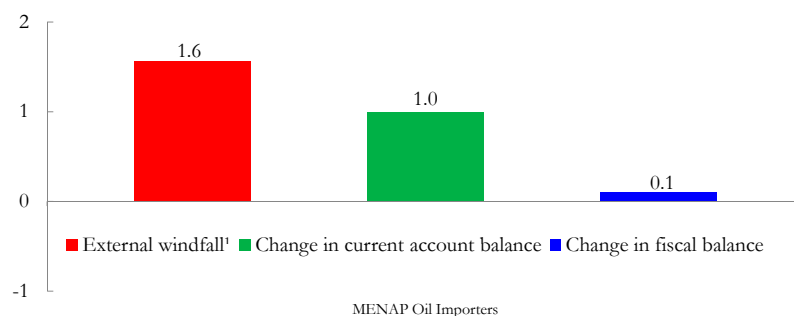





Windfall gains are expected to be mostly saved

External Gains from Lower Oil Prices and Revisions in Fiscal and Current Account Balances

(Percent of GDP, revision between October 2014 REO and January 2015 REO Update)



Sources: National authorities; and IMF staff calculations.



¹Based on 2015 oil price assumptions of \$57.00 (January 2015 WEO update) compared to \$99.36 (October 2014 WEO).

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Policy Implications for MENAP Oil Importers


- The positive effect of lower oil prices on growth will be offset by concurrent adverse domestic and external shocks.
- Where fiscal sustainability is a concern, windfall gains should be saved to strengthen buffers and reduce public debt.
- Given uncertainty about persistence of the oil price shock and implications for financing, countries should avoid entering into irreversible spending commitments.
- Lower oil prices create favorable conditions for continuing subsidy reforms and stepping up structural reforms to raise potential growth and make it more inclusive.



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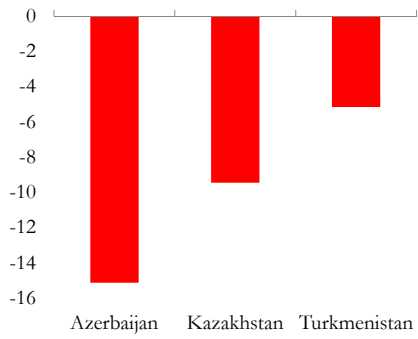
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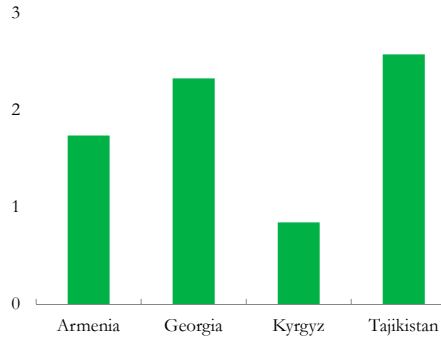
Lower oil prices will have the opposite effects on CCA oil exporters and importers

Oil Exporters: External Losses from Lower Oil Prices, 2015




Country	External Loss (2015)
Azerbaijan	-15.5
Kazakhstan	-9.5
Turkmenistan	-5.5

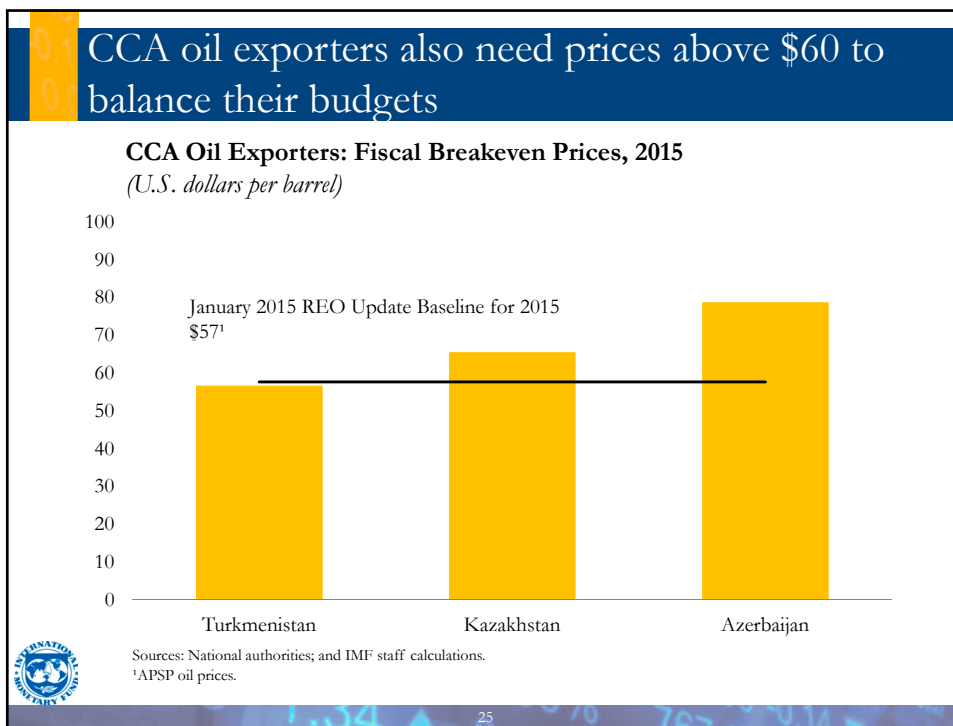
Oil Importers: External Gains from Lower Oil Prices, 2015



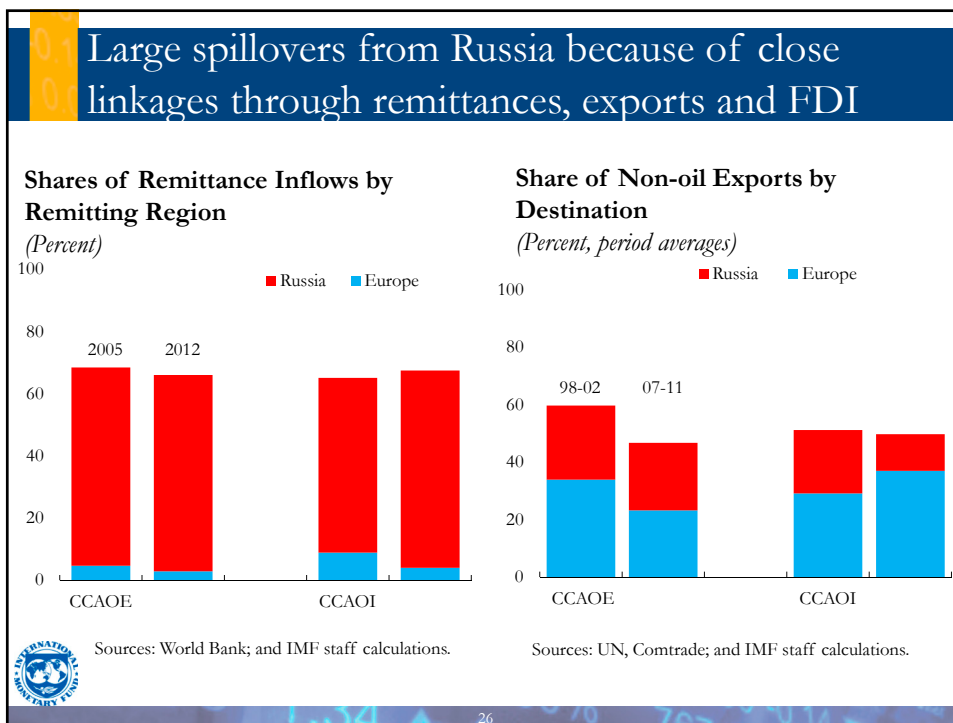
Country	External Gain (2015)
Armenia	1.8
Georgia	2.3
Kyrgyz Republic	0.8
Tajikistan	2.5

Sources: National authorities; and IMF staff calculations.

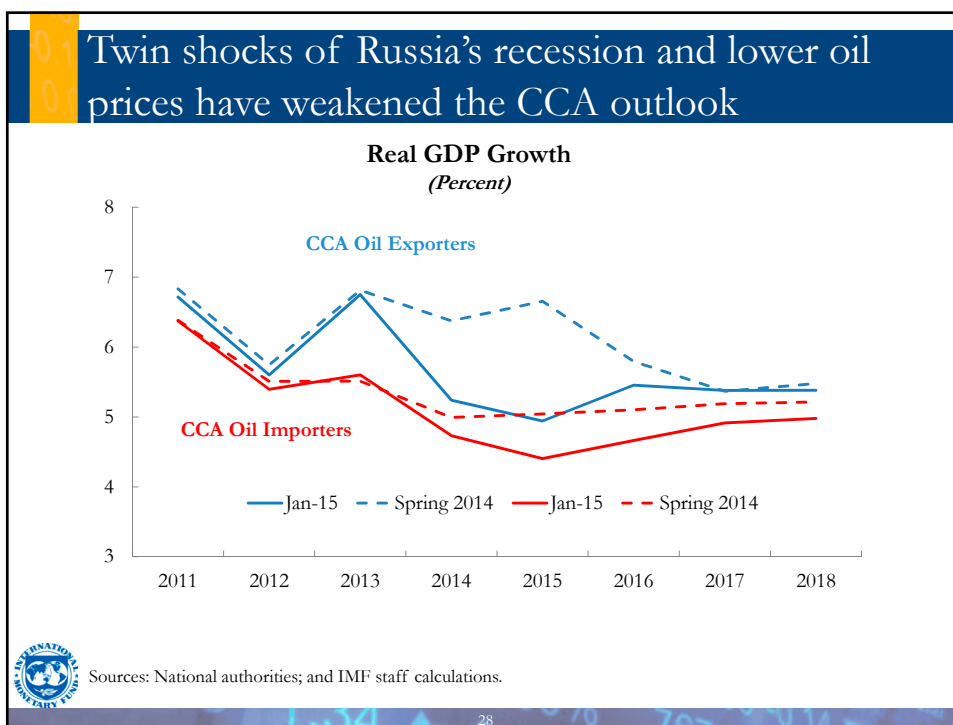
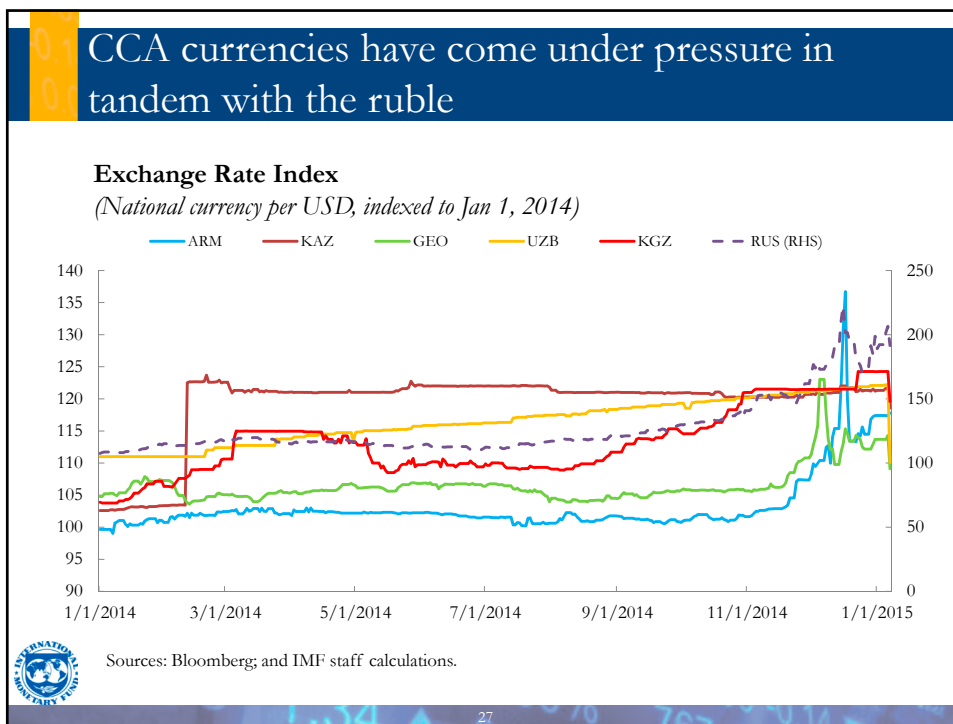




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Policy Implications for CCA countries

In the Short Run:

- Faced with adverse spillovers from Russia, countries should implement countercyclical fiscal policy if fiscal space allows and financing is available.
- Increased exchange rate flexibility would facilitate adjustment of economies to adverse shocks.
- Tightening of monetary policy would help address signs of inflationary pressures and help limit exchange rate pressures.

Over the Medium Term:

- Oil exporters would need to reassess medium-term spending plans to the extent that the oil price decline is persistent. Oil importers should resume fiscal consolidation to rebuild buffers as soon as cyclical conditions allow.
- Stepped up structural reform efforts are needed to diversify economies and improve the business climate.



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Thank you!



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