MENAP Region Highlights

The slump in oil prices and ongoing conflicts continue to weigh on MENAP's economic outlook. Uncertainties arising from conflicts in Iraq, Libya, Syria, and Yemen are weakening confidence and lower oil prices are taking a toll on exports and economic activity in oil exporters. Oil importers are benefiting from lower oil prices, although declining remittances from oil exporters are partly offsetting these benefits. MENAP growth will be modest at 3½ percent this year, with little improvement expected in 2017. Considerable uncertainty surrounds these forecasts, however, because of the fluctuation in oil prices and the threat of regional conflicts. Structural transformations are needed across the region to raise medium-term prospects and create jobs.

Oil Exporters: Ongoing Adjustment to Cheaper Oil

Despite recent increases, oil prices—the key driver of the outlook for MENAP oil exporters—are projected to remain low over the coming years. Economic activity in the GCC region is projected to slow this year despite continued expansion in hydrocarbon output. Fiscal tightening and declining liquidity in the financial sector are projected to reduce non-oil growth in the GCC to 1¾ percent in 2016, down from 3¾ percent last year. GCC non-oil growth is projected to pick up to 3 percent next year as the pace of fiscal consolidation eases. Over the medium term, less fiscal drag and a partial recovery in oil prices are projected to raise GCC non-oil growth to 3½ percent, well below the 7 percent average during 2000–14. Headline growth in Iran has been revised up to 4½ percent this year, owing to faster-than-expected increases in oil production following the removal of sanctions. The outlook for Iraq, Libya, and Yemen remains predicated on an easing of conflicts in those countries.

Risks are to the downside. The negative impact of fiscal consolidation and tightening liquidity on growth could be larger than anticipated. Regional conflicts could intensify. A deeper slowdown in China could further weaken commodity prices, while a faster-than-expected U.S. monetary tightening could increase global financial volatility, thereby reducing the availability of international financing, especially for lower-rated issuers. Risks to medium-term growth are double-sided. Authorities could make faster-than-expected progress in implementing structural reform plans. However, considering the scope of the envisaged economic transformation, such plans could run into obstacles, which could lead to reform fatigue.

The significant deficit-reduction efforts which began last year are continuing, with the aggregate 2016 non-oil fiscal deficit expected to improve by more than 5 percent of non-oil GDP. Despite recent consolidation measures, including welcome reforms to domestic energy prices, deficits are projected to remain large—all countries are anticipated to record fiscal deficits this year, and only Iraq, Kuwait, and the United Arab Emirates are set to post surpluses by 2021. Further fiscal adjustment is needed, which will require difficult policy choices and the adoption of well-calibrated measures to protect the vulnerable.

Additionally, countries need to accelerate structural reforms to diversify their economies away from hydrocarbons, boost the role of the private sector, and create jobs for their rapidly growing labor forces. The envisaged economic transformation, as reflected in country diversification plans, will take time. Careful and steady implementation will be key to success. As economic diversification proceeds, new skills will be required for new and existing workers to succeed. Upgrades to education and training programs should focus on reducing skill mismatches, while anticipating future needs of the private sector.

Oil Importers: Striving to Foster Inclusive Growth in a Challenging Environment

Recent reforms and lower oil prices have helped improve macroeconomic stability in the oil-importing countries in the region. Yet growth remains weak and fragile, projected to be 3½ percent this year before strengthening to 4¼ percent in 2017. Continued progress in reforms, lower fiscal drag, and stronger external demand, especially from the euro area, are expected to support the recovery. However, amid lingering structural impediments, medium-term growth is likely to remain too low to tackle high unemployment and improve inclusiveness.

Furthermore, risks cloud this outlook. Slow improvement in job creation and living standards could aggravate sociopolitical frictions, and setbacks to political transitions and reform implementation could undermine the recovery. Escalation of regional conflicts could intensify adverse spillovers. Tighter global financial conditions—amid China's rebalancing, the normalization of U.S. interest rates, and/or the fallout from Brexit—could reduce the availability of financing. On the upside, exports could rise faster if, for example, more progress is made on trade pacts with the European Union. China's rebalancing may also expand opportunities for consumption-oriented exports.

Stepping up reform momentum is crucial in this challenging environment. Energy subsidy reforms and revenue-enhancing initiatives have created more room for spending on infrastructure, health, and education, as well as targeted social assistance. Yet investment and productivity growth are still too low to boost growth, fiscal space is limited by high debt service costs and large wage bills, and, in some cases, external vulnerabilities are still high. Continued fiscal consolidation is needed to improve public debt profiles and strengthen buffers. It can focus on targeted revenue measures—eliminating tax exemptions, making income taxes more progressive, and strengthening tax collection—as well as the continued reprioritization of spending from general energy subsidies toward targeted social assistance, investment, and other growth-enhancing areas. Greater exchange rate flexibility would help enhance competitiveness. Structural reforms—especially in the areas of business, trade, and labor and financial markets—are needed to foster private sector expansion and job creation.

MENAP Region: Selected Economic Indicators, 2000–17
(Percent of GDP, unless otherwise indicated)

	Average 2012	2013	2014	2015	Projections 2016	Projections 2017
MENAP[1]						
Real GDP (annual growth)	5.2	2.4	2.7	2.3	3.4	3.4
Current Account Balance	9.2	10.1	5.1	–4.0	–4.6	–2.6
Overall Fiscal Balance	2.8	0.0	–2.9	–8.8	–8.5	–6.0
Inflation, p.a. (annual growth)	6.8	10.0	6.9	5.9	5.6	6.1
MENAP Oil Exporters						
Real GDP (annual growth)	5.4	2.0	2.7	1.6	3.3	2.9
Current Account Balance	13.4	15.1	8.3	–3.8	–4.4	–1.8
Overall Fiscal Balance	6.7	4.3	–0.7	–9.5	–9.2	–6.2
Inflation, p.a. (annual growth)	7.5	10.4	5.8	5.5	4.7	4.2
***Of which:* Gulf Cooperation Council (GCC)**						
Real GDP (annual growth)	5.1	3.1	3.3	3.4	1.7	2.3
Current Account Balance	17.0	21.4	13.6	-2.4	-3.7	-0.5
Overall Fiscal Balance	10.8	10.8	3.1	-9.4	-9.8	-6.9
Inflation, p.a. (annual growth)	2.8	2.8	2.6	2.5	3.6	2.6
MENAP oil importers						
Real GDP (annual growth)	4.6	3.2	2.9	3.8	3.6	4.2
Current Account Balance	–2.5	–5.1	–4.4	–4.5	–4.8	–4.7
Overall Fiscal Balance	–5.2	–9.4	–7.8	–7.3	–7.0	–5.8
Inflation, p.a. (annual growth)	5.5	9.1	9.4	6.6	7.4	9.8
MENA[1]						
Real GDP (annual growth)	5.3	2.2	2.6	2.1	3.2	3.2
Current Account Balance	10.0	10.9	5.6	–4.4	–5.0	–2.8
Overall Fiscal Balance	3.7	0.9	–2.7	–9.3	–9.1	–6.4
Inflation, p.a. (annual growth)	6.6	10.3	6.8	6.1	6.0	6.2
MENA oil importers						
Real GDP (annual growth)	4.6	2.9	2.3	3.8	3.1	3.8
Current Account Balance	–3.2	–7.1	–5.9	–6.2	–6.7	–6.3
Overall Fiscal Balance	–5.7	–10.2	–9.5	–8.6	–8.6	–7.1
Inflation, p.a. (annual growth)	4.1	10.1	9.9	8.0	9.9	12.3

Sources: National authorities; and IMF staff calculations and projections.
Note: 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), 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. GCC countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. MENAP oil importers: Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Sudan, Syria, and Tunisia. MENA: MENAP excluding Afghanistan and Pakistan.
[1]2011–17 data exclude Syrian Arab Republic.